

## NEW ISSUE—BOOK-ENTRY ONLY

In the opinion of Willkie Farr & Gallagher, Bond Counsel, assuming continuing compliance by the County with certain covenants relating to requirements contained in the Internal Revenue Code of 1986, interest on the Bonds is not includable in the gross income of the owners thereof for Federal income tax purposes and is exempt from State of California personal income taxes under existing statutes and court decisions. Moreover, in the opinion of Bond Counsel interest on the Bonds is not an "item of tax preference" for purposes of the Federal individual and corporate alternative minimum taxes and the Federal corporate environmental tax. See "TAX MATTERS" herein for a discussion of certain Federal taxes that are applicable to corporate owners of the Bonds.



## \$278,790,000 County of Orange, California Refunding Recovery Bonds 1995 Series A

Dated: June 1, 1995

Due: June 1, as shown below

The County of Orange, California, Refunding Recovery Bonds, 1995 Series A (the "Bonds") will be issued as fully registered Bonds in book-entry form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), security depository for the Bonds. The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof. Interest on the Bonds is payable on June 1 and December 1 of each year, commencing December 1, 1995.

Individual purchases of the Bonds will be made exclusively in book-entry form. Purchasers of the Bonds will not receive physical certificates representing their interests in the Bonds purchased. The principal of and interest on the Bonds are payable directly to DTC by First Interstate Bank of California, as trustee (the "Trustee"). Upon receipt of payments of such principal and interest, DTC will in turn remit such principal and interest to the participants in DTC (as described herein) for subsequent disbursement to the beneficial owners of the Bonds. See "APPENDIX D—BOOK-ENTRY ONLY SYSTEM."

The Bonds are subject to optional and mandatory sinking fund account redemption prior to their respective stated maturities, as described herein. See "THE BONDS—Redemption Provisions."

Certain risk factors are associated with the purchase of the Bonds. See "RISK FACTORS" herein.

On December 6, 1994, the County of Orange (the "County") and the Orange County Investment Pools filed for protection under Chapter 9 of the United States Bankruptcy Code. See "COUNTY OF ORANGE BANKRUPTCY" herein.

The Bonds are being issued pursuant to a Trust Agreement, dated as of June 1, 1995, by and between the County and the Trustee (the "Trust Agreement"). Under the Trust Agreement, the Bonds are payable from all lawfully available funds of the County and additionally secured by a pledge of certain motor vehicle license fees collected by the State of California and allocated to the County pursuant to California Government Code Section 11001 (the "Motor Vehicle License Fees"). In addition, the County will elect to participate in an "intercept program" under California Government Code Section 53585.1 whereby the State Controller will pay Motor Vehicle License Fees directly to the Trustee to pay principal of and interest on the Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein. As further security for the Bonds, pursuant to an order entered on June 5, 1995 by the United States Bankruptcy Court for the Central District of California for so long as the County remains in the current bankruptcy, unless termination is earlier consented to by MBIA Insurance Corporation, the payment of principal of and interest on the Bonds are "administrative expenses" entitled to priority over all other administrative expenses and unsecured claims against the County, except for certain fees and expenses of attorneys, accountants and financial advisors retained in or payable pursuant to the bankruptcy proceedings. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Bonds by MBIA Insurance Corporation.



THE BONDS DO NOT CONSTITUTE AN OBLIGATION FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA.

This cover page contains information for quick reference only. It is *not* a summary of this issue. Potential investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

### BOND PAYMENT SCHEDULE \$158,570,000 Serial Bonds

Bond Payment Date (June 1)	Principal Amount	Interest Rate	Price or Yield	Bond Payment Date (June 1)	Principal Amount	Interest Rate	Price or Yield
2001 . . . . .	\$12,265,000	5 %	5.10%	2006 . . . . .	\$16,155,000	5½%	5.60%
2002 . . . . .	12,880,000	5.10	5.20	2007 . . . . .	17,040,000	5.60	5.70
2003 . . . . .	13,535,000	5.20	5.30	2008 . . . . .	17,995,000	6	5¾
2004 . . . . .	14,240,000	6½	5.40	2009 . . . . .	19,075,000	6	5.85
2005 . . . . .	15,165,000	6½	5½	2010 . . . . .	20,220,000	6	5.90

**\$120,220,000 5¾% Term Bonds due June 1, 2015, Price to Yield 6.10%**  
(plus accrued interest from June 1, 1995)

The Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Willkie Farr & Gallagher, New York, New York, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Orrick, Herrington & Sutcliffe, San Francisco, California. Certain legal matters will be passed upon for the County by the Office of the County Counsel. Certain legal matters will be passed upon for MBIA by Kutak Rock, Omaha, Nebraska. Salomon Brothers Inc has acted as Financial Advisor to the County in connection with the issuance of the Bonds. It is expected that the Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about June 16, 1995.

**Goldman, Sachs & Co.**

**A.G. Edwards & Sons, Inc.**

June 13, 1995.

## **COUNTY OF ORANGE**

County Administrative Office  
Hall of Administration  
10 Civic Center Plaza  
Santa Ana, California 92701  
(714) 834-6201

### **Board of Supervisors**

Gaddi H. Vasquez (Third District), *Chairman*  
Roger R. Stanton (First District), *Vice Chairman*  
James W. Silva (Second District)  
William G. Steiner (Fourth District)  
Marian Bergeson (Fifth District)

### **County Officials**

William J. Popejoy, Chief Executive Officer  
John M.W. Moorlach, County Treasurer - Tax Collector  
S.E. Lewis, County Auditor - Controller  
Terry C. Andrus, Esq., County Counsel

### **SPECIAL SERVICES**

Willkie Farr & Gallagher  
New York, New York  
**Bond Counsel**

Salomon Brothers Inc  
New York, New York  
**Financial Advisor**

First Interstate Bank of California  
Los Angeles, California  
**Trustee**

Certain of the information set forth herein has been obtained from the County, the Bond Insurer and other sources which are believed to be reliable. Such information is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the County. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the County or the Underwriters.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, projections, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

IN MAKING ANY INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

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**\$278,790,000**  
**COUNTY OF ORANGE, CALIFORNIA**  
**REFUNDING RECOVERY BONDS**  
**1995 SERIES A**

**INTRODUCTION**

The purpose of this Preliminary Official Statement, which includes the cover page and Appendices hereto, is to furnish information concerning the County of Orange, California (the "County") and certain other information in connection with the sale by the County of \$278,790,000 Refunding Recovery Bonds, 1995 Series A (the "Bonds"). Unless otherwise defined herein, all capitalized terms used herein shall have the definitions set forth in the Trust Agreement referred to below. See APPENDIX C--"SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS--Definition of Certain Terms".

The Bonds are to be issued pursuant to Articles 10 and 11 (commencing with Section 53570) of Chapter 3 of Division 2 of Title 5 of the Government Code (the "Act") and a Trust Agreement, dated as of June 1, 1995 (the "Trust Agreement"), by and between the County and First Interstate Bank of California, as trustee (the "Trustee"), and by an order of the United States Bankruptcy Court for the Central District of California (the "Bankruptcy Court") entered on May 2, 1995, as amended by an order of the Bankruptcy Court entered on June 5, 1995 (collectively, the "Bankruptcy Order"), and a judgment issued on June 5, 1995 by the Superior Court of the State of California for the County of Orange (see "VALIDATION ACTION" herein). The Bonds are payable from all lawfully available funds of the County and are further secured as described in "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS--General Description of Security and Sources of Payment," and by a financial guaranty insurance policy issued by MBIA Insurance Corporation ("MBIA" or the "Insurer"). See "BOND INSURANCE".

On December 6, 1994, the County and the Orange County Investment Pools (collectively, the "Pool") filed for protection under Chapter 9 of the United States Bankruptcy Code (the "Bankruptcy Code") as a result of substantial losses to investments in the Pool. See "COUNTY OF ORANGE BANKRUPTCY" herein. The Pool experienced losses of approximately \$1.7 billion. Of that amount, approximately \$600 million is attributable to County investments, with substantially all of the remainder attributable to investments by non-County governmental participants in the Pool (the "Pool Participants"), such as cities, school districts and special districts. In addition, as a result of the Pool investment losses, the County suffered a shortfall of budgeted revenue for Fiscal Year 1994-95 of approximately \$190 million, including approximately \$152 million of interest income. In response to the Pool losses, the County has prepared a comprehensive recovery plan (the "Recovery Plan") to address the County's budget deficit and the County's losses in the Pool and to fund certain of the Pool Participants' principal losses.

The Recovery Plan includes budget cuts of approximately \$40 million in Fiscal Year 1994-95 and proposed budget cuts of approximately \$205 million for Fiscal Year 1995-96.

See "COUNTY OF ORANGE BANKRUPTCY" and "BUDGET INFORMATION RELATING TO THE COUNTY" herein. The Recovery Plan contemplates several funding sources, including additional revenues from the County's solid waste system and, if approved by voters, a half-cent sales tax increase for up to ten years, known as Measure R, on the ballot for June 27, 1995. Other sources include any litigation proceeds in connection with the bankruptcy and the proceeds of any asset sales.

The Recovery Plan proposes the issuance of several series of securities, including the Bonds and a bond financing secured by delinquent property taxes and penalties (the "Teeter Bonds") to be offered in June 1995. The Bonds are being issued to refund obligations (the "Warrants") which the County will issue in partial satisfaction of claims of certain Pool Participants pursuant to the Comprehensive Settlement Agreement Re Orange County Investment Pools (the "Settlement Agreement"), which was approved by the Bankruptcy Court on May 2, 1995, between the County and the Pool Participants. See "ESTIMATED USES OF FUNDS" herein. See also "COUNTY OF ORANGE BANKRUPTCY--The Recovery Plan--The Settlement Agreement." The Teeter Bonds will be part of a restructuring of the County's Teeter Program intended to provide for the refunding of \$175 million of outstanding Teeter Notes maturing on June 30, 1995 and to generate additional revenues for the County's general fund. Other financings may include a tax and revenue anticipation note issue for Fiscal Year 1995-96 cash flow needs, and bonds supported by motor vehicle license fees and waste management system revenues, to pay other County obligations. See "COUNTY OF ORANGE BANKRUPTCY--Recovery Plan--Financing Plan" herein for a more complete description of the Recovery Plan.

The successful completion of the Recovery Plan is dependent on several matters beyond the control of the County, including the adoption of the Measure R sales tax increase, which is expected to raise approximately \$130 million per year. The County cannot currently predict the ultimate outcome of these matters. For example, if Measure R is adopted, it may be challenged in court. The County cannot predict the ultimate outcome of such a challenge should it arise. Without the increase in the sales tax, the County will likely not be able to meet all of its obligations, including but not limited to the payment in full of outstanding short-term indebtedness, and will need to examine other alternatives to address its financial situation. The County cannot currently predict when it will be able to emerge from its Chapter 9 bankruptcy.

## **THE BONDS**

### **General**

The Bonds will be issued in an aggregate principal amount of \$278,790,000, will be dated June 1, 1995, and will bear interest from their date to their respective maturity dates or prior redemption dates in amounts and at the rates set forth on the cover page of this Official Statement. Interest on the Bonds will be payable semiannually on June 1 and December 1 of each year (each, an "Interest Payment Date"), commencing December 1, 1995, and will be calculated based on a 360-day year of twelve 30-day months.

The Bonds will be issued as fully registered bonds without coupons, in denominations of \$5,000 or any integral multiple thereof.

The principal of, premium, if any, and interest on the Bonds will be paid by the Trustee.

### **Redemption Provisions**

**Optional Redemption.** At the option of the County, the Term Bonds maturing June 1, 2015 are subject to redemption prior to their respective maturity dates on and after June 1, 2005, as a whole on any date or in part on any Interest Payment Date, in any order of maturity dates selected by the County, at the redemption prices (expressed as percentages of the principal amount of the Bonds to be redeemed) set forth in the table below, together with the accrued interest thereon to the redemption date:

<b>Redemption Period (Dates Inclusive)</b>	<b>Redemption Price</b>
June 1, 2005 through May 31, 2006	102 %
June 1, 2006 through May 31, 2007	101 %
June 1, 2007 and thereafter	100 %

The MBIA Insurance Policy does not insure any payments with respect to optional redemptions or premiums with respect thereto.

**Mandatory Sinking Fund Redemption.** The Bonds maturing on June 1, 2015 are subject to mandatory redemption in part by lot prior to their stated maturity date on and after June 1, 2011 upon payment of the principal amount thereof together with the accrued interest thereon to the redemption date, from amounts credited to the Bond Retirement Account under the Trust Agreement representing sinking fund payments in the amounts and on the dates set forth below:

### **Bonds Maturing June 1, 2015**

<b><u>Year</u></b>	<b><u>Amount</u></b>
2011	\$21,435,000
2012	22,665,000
2013	23,970,000
2014	25,345,000
2015*	26,805,000

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\* Maturity

All Bonds maturing June 1, 2015 which are redeemed and canceled pursuant to the optional redemption provisions described above may, at the option of the County, be credited at par against the sinking fund payments thereafter to become due with respect to the Bonds with such maturity dates in whole or in part (rounded to amounts of \$5,000) in any order determined by the County. If Bonds are purchased by the County at public or private sale, the principal amount of such Bonds shall be credited at par against the sinking fund payments thereafter to become due in whole or in part (rounded to amounts of \$5,000) in any order determined by the County.

### **Selection of Bonds for Redemption**

If less than all of the Bonds of like maturity are to be redeemed, the particular Bonds to be redeemed shall be selected by lot by the Trustee in such manner as the Trustee in its discretion may deem acceptable.

### **Notice of Redemption**

Notice of redemption setting forth the place of payment will be mailed by registered mail to registered owners of Bonds (*i.e.*, Cede & Co., unless the County has appointed another depository or has discontinued use of the book-entry only system) at their last addresses as they appear on the books of the Trustee, not less than 30 nor more than 60 days prior to the redemption date. Notice of redemption shall also be given to certain information services.

### **Book-Entry Only System**

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Bonds. The Bonds shall initially be issued exclusively in book-entry form and will be registered in the name of Cede & Co., DTC's partnership nominee. One fully registered certificate will be executed and delivered for each maturity, in the aggregate principal amount applicable to that maturity. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the owners of the Bonds (except in the section "TAX MATTERS" herein) shall mean Cede & Co. and shall not mean the actual purchasers of the Bonds. See APPENDIX D--"BOOK-ENTRY SYSTEM."

## ESTIMATED USES OF FUNDS

The estimated uses of funds, excluding accrued interest, is as follows:

Refund Warrants	\$232,000,000
Reserve Account (1)	27,879,000
Insurance Premium	8,594,639
Cost of Issuance (2)	<u>10,316,361</u>
Total	<u>\$278,790,000</u>

(1) Equals the Reserve Account Requirement.

(2) Includes legal fees, financial advisory fees, original issue discount, underwriters' discount and other County issuance costs.

## DEBT SERVICE SCHEDULE

Period Ending (June 1)	Principal	Interest	Annual Debt Service
1996		\$16,078,090	\$16,078,090
1997		16,078,090	16,078,090
1998		16,078,090	16,078,090
1999		16,078,090	16,078,090
2000		16,078,090	16,078,090
2001	\$12,265,000	16,078,090	28,343,090
2002	12,880,000	15,464,840	28,344,840
2003	13,535,000	14,807,960	28,342,960
2004	14,240,000	14,104,140	28,344,140
2005	15,165,000	13,178,540	28,343,540
2006	16,155,000	12,192,815	28,347,815
2007	17,040,000	11,304,290	28,344,290
2008	17,995,000	10,350,050	28,345,050
2009	19,075,000	9,270,350	28,345,350
2010	20,220,000	8,125,850	28,345,850
2011	21,435,000	6,912,650	28,347,650
2012	22,665,000	5,680,138	28,345,138
2013	23,970,000	4,376,900	28,346,900
2014	25,345,000	2,998,625	28,343,625
2015	<u>26,805,000</u>	<u>1,541,287</u>	<u>28,346,287</u>
Totals:	<u>\$278,790,000</u>	<u>\$226,776,975</u>	<u>\$505,566,975</u>

## SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

### General Description of Security and Sources of Payment

The Bonds are payable from all lawfully available funds of the County. In addition, under the Trust Agreement, the County pledges to the Trustee (i) the proceeds of the sale of the Bonds, subject to application in accordance with the provisions of the Trust Agreement, (ii) the Pledged Revenues (as defined below) and (iii) the Debt Service Fund, including any investments therein.

*Motor Vehicle License Fees.* "Pledged Revenues" are defined in the Trust Agreement to mean Motor Vehicle License Fees which are further defined as all moneys credited to the Motor Vehicle License Fee Account in the Transportation Tax Fund of the State of California to which the County is entitled under Chapter 5 (commencing with Section 11001) of Part 5 of Division 2 of the California Revenue and Taxation Code. The County has pledged Pledged Revenues pursuant to Section 364(c)(2) of the Bankruptcy Code and California Government Code Section 53584.1.

Motor Vehicle License Fees are collected by the State and allocated to cities and counties according to a formula established by law. As further security for the Bonds, the County, upon issuance of the Bonds, will elect to participate in a "state intercept program" whereby the Motor Vehicle License Fees, in an amount equal to the debt service on the Bonds, will be paid directly by the State Controller to the Trustee. See "- Motor Vehicle License Fees and the State Intercept Program" below.

*"Superpriority".* Pursuant to the Bankruptcy Order, the payment of debt service on the Bonds from all lawfully available funds of the County is deemed to be "senior allowed administrative expenses" in the bankruptcy proceedings of the County, entitled to so-called "superpriority" over all other administrative expenses and unsecured claims against the County, except certain Carve-Out Expenses, as follows:

Unpaid allowed fees and expenses of attorneys, accountants and financial advisors retained in the bankruptcy proceedings of the County pursuant to Sections 327, 904 and 1103 of the Bankruptcy Code and unpaid fees and expenses of attorneys, accountants and financial advisors payable pursuant to Section 904 of the Bankruptcy Code by order of the Bankruptcy Court; provided, however, that (a) the fees and expenses entitled to priority under this clause shall not include Excluded Professional Expenses (see definition in "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS -- Definitions of Certain Terms") and (b) the amount entitled to priority under this clause ("Priority Professional Expenses") shall not exceed \$2,000,000 per month (inclusive of any holdbacks required by the Bankruptcy Court) (the "Professional Expense Cap") in the event of any default in payment of principal of or interest on any obligation of the County and only for so long as such default is not cured.

The "superpriority" status of the Bonds will terminate when the County emerges from bankruptcy or earlier if consented to in the sole discretion of MBIA.

## Motor Vehicle License Fees and the State Intercept Program

*Motor Vehicle License Fees.* Motor Vehicle License Fees are imposed for the operation of vehicles on state highways pursuant to Revenue and Taxation Code Sections 10701 et seq. (the "Vehicle License Fee Law") enacted in 1941 and are collected by the State Department of Motor Vehicles (the "DMV"). Certain of these license fees are deposited monthly in the State Treasury to the credit of the Motor Vehicle License Fee Account (the "MVLFF Account") in the Transportation Tax Fund. Other amounts collected pursuant to the Vehicle License Fee Law are deposited into other State accounts; namely, certain levies on trailer coaches are deposited in the State's general fund, and by legislation enacted in 1991, 24.33% of the moneys collected under the Vehicle License Fee Law are deposited in the State Treasury to the credit of the Local Revenue Fund (established for the benefit of counties pursuant to Section 17600 of the Welfare and Institutions Code). In 1993, the Legislature enacted a further amendment providing that net funds collected as a result of improved compliance procedures with vehicle license fee laws would be deposited to the credit of the Local Revenue Fund. Before any monies in the MVLFF Account are paid to cities and counties, a number of deductions are made, including deductions for the payment of refunds, expenses for the enforcement of the Vehicle License Fee Law, amounts used by the State for interfund borrowing in the event that the State's General Fund is exhausted, and expenses chargeable to each city, city and county or county for expenses incurred by the DMV and the California Highway Patrol in executing warrants and costs incurred by the State Fire Marshall for the inspection of high-rise buildings located in such city or county.

Pursuant to California Revenue and Taxation Code Sections 11001-11005 (the "Vehicle License Fee Allocation Statute"), monies in the MVLFF Account are statutorily appropriated to cities and counties in accordance with a formula provided in the Government Code, which is generally based upon population. In the last five fiscal years, the County received the following amounts as its share of Motor Vehicle License Fees from the MVLFF Account in accordance with the Vehicle License Fee Allocation Statute:

<u>Motor Vehicle License Fee Revenues</u>	<u>Fiscal Year</u>
\$ 97,946,273	1993-94
98,936,967	1992-93
101,883,972	1991-92
92,144,863	1990-91
90,075,624	1989-90

*Source: Orange County Auditor-Controller Department*

Based on the 1993-94 Motor Vehicle License Fee allocation, the Bonds have a coverage of approximately 3.46 times maximum annual debt service of \$28,347,815. The County may issue bonds, notes and other indebtedness, in addition to the Bonds, secured by a pledge and/or intercept of Motor Vehicle License Fees, but has covenanted in the Trust Agreement not to do so unless, immediately after such issuance, the aggregate maximum annual

debt service on all obligations secured by a pledge or intercept of Motor Vehicle License Fees would have a minimum coverage of 1.25x (determined as described in "- Additional Obligations" below.)

*State Intercept Program.* Pursuant to the provisions of Section 53585.1 of the California Government Code (herein the "State Intercept Program"), the County will elect to further secure the payment of the principal of and interest with respect to the Bonds by electing, as of the date of issuance of the Bonds, into a payment mechanism by which the State Controller will pay directly to the Trustee the amount of the principal of and interest on the Bonds from Motor Vehicle License Fees.

Under the provisions of the State Intercept Program, the County Board of Supervisors (the "Board of Supervisors") will notify the State Controller of the election upon the issuance of the Bonds, which notice will include a schedule of monthly debt service payments and designation of the Trustee appointed for the purpose of implementing the payment procedures. Upon such notification the State Controller is required to make such apportionment to the Trustee from moneys credited to the MVLFF Account to which the County is entitled according to the schedule provided by the County. The State Controller will thereupon reduce, by the amount so transferred, the subsequent allocation or allocations to which the County would otherwise be entitled under that statute.

#### **Reserve Account**

The Trust Agreement establishes a Reserve Account to be initially funded with Bond proceeds in the amount equal to ten percent of the face amount of the Bonds.

In the event that there is a deficiency in the Interest Account, the Principal Account or the Bond Retirement Account in the Debt Service Fund, the Trustee will promptly make up such deficiency from the Reserve Account. Starting the month following a withdrawal from the Reserve Account for such purpose, the County will, from legally available funds, in twelve equally monthly installments, deposit in the Reserve Account the amount needed to increase the amount in the Reserve Account to the Reserve Account Requirement.

#### **Additional Obligations**

In addition to the Bonds, the only bonds that may be issued under the Trust Agreement are Additional Refunding Bonds. See "APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS--Delivery of Additional Refunding Bonds."

However, the County may issue bonds, notes, warrants or other evidence of indebtedness, including lease obligations and certificates of participation therein, secured by a pledge or intercept of Motor Vehicle License Fees, if the County delivers to the Trustee written consent by MBIA and a certificate of an Authorized Officer of the County certifying that the aggregate Motor Vehicle License Fees deposited into the MVLFF Account during a period of twelve full consecutive calendar months, out of the most recently completed period of fifteen full

calendar months, preceding the date of delivery of such obligations, is not less than 1.25 times the aggregate maximum annual debt service with respect to all of (i) the Outstanding Bonds (ii) any outstanding obligations issued after the Bonds secured by a pledge and/or intercept of Motor Vehicle License Fees, and (iii) the obligations then proposed to be issued. See "APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS--Certain Covenants--Issuance of Other Obligations."

The County may also issue additional obligations secured on a parity with the Bonds by a "superpriority" like that described under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS--General Description of Security and Sources of Payment" but only for tax and revenue anticipation note financings not to exceed \$115,000,000 annually and for such other obligations as may be consented to by MBIA. See "APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS--Certain Covenants--Bankruptcy Order; Validation Judgment, Administrative Priority; Lien Priority; Payment of Claims."

## **BOND INSURANCE**

The following information has been furnished by MBIA Insurance Corporation (the "Insurer") for use in this Official Statement. Reference is made to Appendix H for a specimen of the Insurer's policy.

The Insurer's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the County to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Insurer's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Insurer's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond. The Insurer's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Insurer's policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Bonds in any legal proceedings related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Trustee payment of the insured amounts due on such Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

The Insurer, formerly known as Municipal Bond Investors Assurance Corporation, is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company. MBIA Inc. is not obligated to pay the debts of or claims against the Insurer. The Insurer is domiciled in the State of New York and licensed to do business in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Insurer has one European branch in the Republic of France.

As of March 31, 1995, the Insurer had admitted assets of \$3.5 billion (unaudited), total liabilities of \$2.4 billion (unaudited), and total capital and surplus of \$1.1 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 1994 the Insurer had admitted assets of \$3.4 billion (audited), total liabilities of \$2.3 billion (audited), and total capital and surplus of \$1.1 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. All information regarding the Insurer, a wholly owned subsidiary of MBIA Inc., including the financial statements of the Insurer for the year ended December 31, 1994, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of MBIA Inc. for the year ended December 31, 1994, is hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof. Any statement contained in a document incorporated by reference herein shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Furthermore, copies of the Insurer's year end financial statements prepared in accordance with statutory accounting practices are available from the Insurer. A copy of the

Annual Report on Form 10-K of MBIA Inc. is available from the Insurer or the Securities and Exchange Commission. The address of the Insurer is 113 King Street, Armonk, New York 10504.

Moody's Investors Service ("Moody's") rates the claims paying ability of the Insurer "Aaa." The Bonds are rated in the highest rating category by Moody's.

Standard & Poor's, a division of The McGraw Hill Companies, Inc. ("Standard & Poor's"), rates the claims paying ability of the Insurer "AAA." The Bonds are rated in the highest rating category by Standard and Poor's.

The Moody's rating of the Insurer should be evaluated independently of the Standard & Poor's rating of the Insurer. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of either or both ratings may have an adverse effect on the market price of the Bonds. The Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

## **RISK FACTORS**

The following section describes certain risk factors affecting the payment of and security for the Bonds. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following factors along with all other information in this Official Statement in evaluating the Bonds. There can be no assurance that other risk factors will not become material in the future.

### **Limited Obligation**

THE BONDS ARE PAYABLE FROM LAWFULLY AVAILABLE FUNDS OF THE COUNTY AND ARE SECURED BY A PLEDGE OF CERTAIN MOTOR VEHICLE LICENSE FEES CREDITED TO THE MVLF ACCOUNT IN THE STATE TRANSPORTATION FUND ALLOCATED TO THE COUNTY AND DEPOSITED WITH THE TRUSTEE PURSUANT TO THE STATE INTERCEPT PROGRAM. THE BONDS DO NOT CONSTITUTE AN OBLIGATION FOR WHICH THE COUNTY IS OBLIGATED TO

LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA.

#### **Limitation on Sources of Revenues**

There are limitations on the ability of the County to increase revenues payable to the general fund of the County. The ability of the County to increase the ad valorem property taxes (which has historically been a primary source of revenues for counties in California) is limited pursuant to Article XIII A of the State Constitution, which was enacted in 1978. In addition, California voters in 1986 approved an initiative statute which attempts to limit the imposition of new or higher taxes by local agencies, including the County. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS." These same legal limitations generally restrict the ability of counties to increase fees in excess of the amount needed to provide the service or facilities with respect to which such fees are charged. A second major source of income to counties has been motor vehicle license fees, the amount and allocation of which are not controlled by the counties. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS--Motor Vehicle License Fees and the State Intercept Program." In some prior years, the County derived as much as one-third of its Discretionary Budget from investment income but anticipates relatively little investment income in the foreseeable future. See "COUNTY OF ORANGE BANKRUPTCY--Background of Bankruptcy" and discussion of the Discretionary Budget in "COUNTY OF ORANGE BANKRUPTCY--Recovery Plan."

At the same time as limitations have been imposed on the ability of the County to raise revenues, State and federally mandated expenditures for justice, health and welfare have increased on an annual basis. Such annual increase in mandated expenditures has exceeded the annual increase in County revenues. In the event the County's revenue sources are less than its total obligations, the County could choose (other than with respect to pledged Motor Vehicle License Fees) to fund other municipal services before paying debt service on the Bonds.

#### **Result of Failure of Sales Tax**

If the proposed half-cent sales tax increase is not implemented, the County will have difficulty implementing its Recovery Plan, including payment of all of its obligations. See "COUNTY OF ORANGE BANKRUPTCY--Recovery Plan--One-Half Cent Sales Tax Increase Ballot Proposal."

#### **Motor Vehicle License Fees**

The amount and timing of payment of Motor Vehicle License Fees and balances in the MVLFF Account are not within control of the County. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS--Motor Vehicle License Fees and State Intercept Program."

## **Bankruptcy**

**Alteration of Terms of Bonds.** Pursuant to the Trust Agreement and the Bankruptcy Order, the County has waived and released any right it may have to alter, modify, extend, impair, or affect any of the terms or provisions of the Bonds, the Trust Agreement, or the Bankruptcy Order, without the consent of the Trustee. Nevertheless, no assurance can be given that this waiver and release is enforceable. If it is not enforceable, then in the future the Bankruptcy Court might, at the request of the County, a creditor of the County, or some other party in interest, alter, modify, extend, impair, or affect any of the terms or provisions of the Bonds, the Trust Agreement, or the Bankruptcy Order, the priority, interest rate, payment terms, maturity dates, payment sources, collateral, covenants, or other terms or provisions of the Bonds, the Trust Agreement, or the Bankruptcy Order. Such alterations, although they are not common, could be made even over the objection, and without the consent, of the Trustee or the Bondholders.

The terms of the Bonds, the Trust Agreement, and the Bankruptcy Order may also be able to be challenged by any party whom the Bankruptcy Court determines should have received notice of the Bankruptcy Court hearing on the approval of the issuance of the Bonds, but who did not receive such notice.

**Enforcement Limitations.** Pursuant to the Bankruptcy Order, upon the occurrence of an Event of Default under the Trust Agreement, the Trustee may seek immediate relief from the automatic stay upon five days notice and, upon the granting of such relief, may exercise all of its post-default rights and remedies. The Bankruptcy Court, however, is not required to grant relief to the Trustee, and thus there could be substantial delays before the Bondholders' rights could be enforced.

Should the County file a second bankruptcy case after emerging from the current bankruptcy case, the Trustee and the Bondholders may be prohibited from taking any action against the County, any official of the County, or any property of the County to enforce the terms of the Bonds, the Trust Agreement, or the Bankruptcy Order, unless the consent of the Bankruptcy Court is first obtained. As noted above, the Bankruptcy Court is not required to give its consent. This prohibition on action may even prohibit the Trustee from using funds in its possession, or funds that are paid to it by the Controller pursuant to the State Intercept Program, to make payments on the Bonds. The Controller may be prohibited from paying money to the Trustee.

**Lien of the Trust Agreement.** Should the County file a second bankruptcy case, the lien of the Trust Agreement is unlikely to attach to any Motor Vehicle License Fees (or any other funds or property) credited to or paid to the County after the commencement of the bankruptcy case.

**Plan of Adjustment.** The County is the only party that can propose a plan of adjustment in its pending bankruptcy case (or in a second bankruptcy case). Pursuant to the Trust Agreement and the Bankruptcy Order the County has covenanted that the rights, remedies, security interests, and liens granted to the Trustee by the Bonds, the Trust Agreement, and the

Bankruptcy Order shall not be altered, modified, extended, impaired, or affected by any plan of adjustment in the pending bankruptcy case or by any order of confirmation thereof, without the consent of the Trustee. Nevertheless, no assurance can be given that this covenant is enforceable. If it is not enforceable, a plan of adjustment in the pending bankruptcy case might alter the priority, interest rate, payment terms, maturity dates, payment sources, collateral, covenants, or other terms or provisions of the Bonds, the Trust Agreement, or the Bankruptcy Order. In any event, the covenant does not extend to any subsequent bankruptcy case commenced by the County, and thus in such a second bankruptcy case, the County could propose a plan that would alter the priority, interest rate, payment terms, maturity dates, payment sources, collateral, covenants, or other terms or provisions of the Bonds, the Trust Agreement or the Bankruptcy Order.

Before a plan can take effect in any bankruptcy case of the County, the plan must be confirmed by the Bankruptcy Court, and in order to confirm the plan, the Bankruptcy Court must determine that the plan is fair and equitable. The Bankruptcy Court can determine that the plan is fair and equitable, and can confirm the plan, even over the objections of the Trustee and the Bondholders, and without their consent.

### **Changes in Law**

There can be no assurance that the State Legislature will not at some future time enact legislation that will amend or create laws resulting in a reduction of moneys securing or available to pay the Bonds. Similarly, the California electorate could adopt initiatives or the State Legislature could adopt legislation with the approval of the electorate amending the State Constitution which could have the effect of reducing moneys securing or available to pay the Bonds.

In May 1995, the State Legislature passed and the Governor vetoed legislation that would have authorized the Governor to establish an authority (composed of the State Treasurer, Controller and Director of Finance) to supervise all matters relating to the budget and fiscal affairs of the County. The Governor and others indicated that this legislation could be reconsidered if the Measure R sales tax does not pass and the County's financial condition worsens.

## **THE COUNTY**

The County is the third largest county in California with a population of 2.6 million residents.

The County is a general law county divided into five supervisorial districts on the basis of registered voters and population. The County is governed by a five-member Board of Supervisors with each Supervisor serving a four-year term. The chairman is elected by and from members of the Board.

County administration includes fifteen officials appointed by the Board of Supervisors. In addition, the following seven officials are elected by Countywide vote to four-year terms: the Assessor, Auditor-Controller, Clerk-Recorder, District Attorney, Public Administrator, Sheriff-Coroner and the Treasurer-Tax Collector. Many boards, commissions and committees assist the Board of Supervisors and County officials.

The County provides a wide range of services to its residents, including police and fire protection, medical and health services, senior citizen assistance, library services, judicial institutions (including support programs), airport service, roads, waste management, harbors, beaches and parks, and a variety of public assistance programs. Other services are provided by special districts include lighting, maintenance, and flood control, which are governed by the Board of Supervisors.

Certain municipal services are provided by the County, on a contract basis, to some of the thirty-one incorporated cities within its boundaries. This plan is designed to allow cities to contract for municipal services without incurring the cost of creating numerous city departments and facilities. Under the plan, the County provides any or all services to a city at the same level as provided in the unincorporated areas, or at any higher level the city may choose. Services are provided at cost.

See APPENDIX A--"THE COUNTY OF ORANGE DEMOGRAPHIC, ECONOMIC AND FISCAL OVERVIEW" for more information regarding the County.

## **COUNTY OF ORANGE BANKRUPTCY**

### **Background of Bankruptcy**

On December 6, 1994, the County and the Orange County Investment Pools (collectively, the "Pool") filed for protection under Chapter 9 of the United States Bankruptcy Code following losses which were eventually realized at approximately \$1.7 billion in the market value of the Pool's investment portfolio. County funds and funds of more than 200 non-County governmental agencies within the State were invested in the Pool.

In California, State law generally requires that all monies of a county and its school districts be deposited with the county treasurer. Additionally, other public agencies such as cities, special districts, or other public agencies are allowed by California Government Code Section 53684 to deposit for investment purposes excess monies in the county treasury. The non-County pool investors are herein referred to as the "Pool Participants."

As of November 30, 1994, the Pool had assets of approximately \$20.6 billion, of which \$13 billion was borrowed through repurchase contracts and reverse repurchase contracts. The remaining \$7.6 billion included \$2.7 billion deposited by the County and \$4.9 billion deposited by local agencies other than the County.

Although Pool Participants were entitled to withdraw monies on relatively short notice, the Pool was invested in securities with an average duration of four years in order to enhance returns. To further enhance yield, some Pool monies were also invested in a variety of structured instruments, such as inverse floaters and step-up callable notes, which were highly sensitive to changes in market interest rates. Repurchase and reverse repurchase agreements were also used to obtain loans from broker/dealers to further enhance returns by leveraging. Such borrowings exposed the County to cash collateral calls in the event of losses in market value of the collateral. These long dated and structured securities together with leverage caused the Pool's portfolio to generate high rates of return while the interest rate yield curve was steep from late 1991 through 1993. However, these same factors limited the Pool's liquidity and resulted in substantial losses of market value when market interest rates increased and the yield curve flattened through most of 1994.

The immediate goal of the County following the bankruptcy filings was to eliminate exposure to further losses in the illiquid, volatile portfolio. In mid-December, the County commenced the orderly auction and sale of the existing portfolio. As a result of the liquidation of the portfolio, which was completed on January 20, 1995, the Pool realized a loss of approximately \$1.7 billion. As a result of the auction and restructuring process, the volatility of the portfolio was substantially reduced, its duration shortened to less than one year and its liquidity restored.

Following the \$1.7 billion losses in the Pool's investment portfolio and the resulting bankruptcy filings, distributions from the Pool were stayed, and various Pool Participants asserted a variety of tort claims against the County, including breach of fiduciary duty, fraud and negligence, and asserted trust claims seeking the full amount of the funds they had placed in the County treasury. After extensive negotiations between the County and representatives of the Pool Participants, the County and the Pool Participants entered into the Comprehensive Settlement Agreement Re the Orange County Investment Pools (the "Settlement Agreement"). See "Recovery Plan--The Settlement Agreement" below.

*Defaults on Outstanding Obligations.* The County is currently in default under the terms of a number of its debt obligations. The County has drawn on the reserve accounts for various outstanding certificates of participation financings in order to meet current principal and interest payments. These withdrawals, which will total approximately \$16.8 million at the time of delivery of the Bonds, have not been replenished as required by the terms of the documents pursuant to which the certificates of participation were issued. On September 1, 1994, the County issued County of Orange, California Taxable Pension Obligation Bonds, Series 1994A (the "Series 1994A Pension Bonds") and Series 1994B (the "Series 1994B Pension Bonds"). The Series 1994B Pension Bonds provide for puts on seven-days notice to the Pool. The Pool has defaulted on its obligation to purchase such bonds pursuant to such puts. In connection with the issuance of Series 1994A Pension Bonds, the County entered into an interest rate swap agreement with Credit Suisse Financial Products. The County is currently in default under the terms of the swap agreement and has not paid to Credit Suisse Financial Products the termination payment specified in the swap agreement. In addition, the County is in technical default under the terms of various financing documents as a result of the bankruptcy filing and/or other conditions. The County is also in default on its obligations under two tax and

revenue anticipation note issues aggregating \$200 million to set aside pledged amounts in advance to pay principal and interest at maturity. The County's position on this matter is that the pledge was a consensual, as distinguished from statutory, lien and, consequently, did not survive bankruptcy. This position was upheld by the bankruptcy court (but is currently on appeal). The County may postpone other deposits required to be made in advance of debt service becoming due on other County obligations, including (without limitation) the Series 1994A Pension Bonds and the Series 1994B Pension Bonds. To date, the County has paid all principal and interest payments on its outstanding notes and bonds and leases represented by certificates of participation when due. No assurances can be given that it will continue to be able to do so. See "Recovery Plan--Negotiations Regarding County Notes" and "Recovery Plan--One-Half Cent Sales Tax Increase Ballot Proposal" below.

In addition, the County has expressly reserved in the bankruptcy proceedings any rights it may have to reject leases or to challenge them as disguised loans, including County leases with respect to which certificates of participation are outstanding; to challenge the validity of certain taxable tax and revenue anticipation notes issued by the County in 1994 and maturing on July 10, 1995; to challenge various security interests and reserve requirements with respect to outstanding County notes; and to challenge, object to, seek or contend various other matters with respect to outstanding County obligations.

## **Recovery Plan**

### *Effect on County Finances and Services and Fiscal Year 1995-96 County Budget.*

As a result of the \$1.7 billion loss in the Pool portfolio, the County lost \$600 million in County investments. The County also suffered a loss of \$152 million in estimated interest earnings. The County's financial health was closely tied to the Pool both because of its dependence on the Pool for interest income and because essentially all of the County's liquid assets were invested in the Pool. While the adopted County Operating Budget (the "County Operating Budget") for Fiscal Year 1994-95 equaled \$3.7 billion and the County General Fund Budget (the "General Fund Budget") represented \$1.6 billion of that amount, the discretionary portion of the General Fund Budget (the "Discretionary Budget") was \$462.5 million. The largest portion (\$164 million) of that amount was expected to come from investment income on County funds in the Pool. Actual investment income for Fiscal Year 1994-95 is expected to be approximately \$10 million. The County has projected \$10 million of investment income in the Fiscal Year 1995-96 proposed budget.

The County provides numerous health, welfare and public safety services which are funded from federal and/or state grants, matching funds, funds restricted as to use or which require maintenance of efforts payments by the County, and which account for most of the differences between the County Operating Budget and the Discretionary Budget. In order to preserve these revenues and continue provision of these mandated services, the Discretionary Budget of \$462.5 million was the portion from which expenditures were reduced for Fiscal Year 1994-95, and to which budget reductions have been proposed for the Fiscal Year 1995-96 budget. In an effort to achieve a balanced budget for Fiscal Year 1995-96, the Discretionary Budget would be reduced by approximately 40 percent to \$275 million.

The proposed reductions to the Fiscal Year 1995-96 budget cover all County departments. Total budgeted positions as of December 6, 1994 have been reduced in the proposed Fiscal Year 1995-96 budget by 2,893. This includes layoffs of 846, vacant position deletions of 993, early retirements of 123, and transfers of 931 positions to the new Fire Protection Joint Powers Authority (with which the County contracts for fire protection services). Moreover, these reductions resulted in the elimination or reduction of many County programs. The County believes, however, that the \$275 million Discretionary Budget allows it to provide for the essential health, safety, and welfare of its residents without further deepening its financial crisis.

*Administrative Reorganization.* Among the first organizational actions taken by the Board of Supervisors was a restructuring of the County Administrative Office. The position of County Chief Executive Officer (the "CEO") was created in February 1995 and William J. Popejoy was appointed to a nine-month term. The CEO has been given authority over all aspects of the County's daily operations, including the budgeting process. The concentration of power in the CEO office combined with the necessity of a four-fifths Supervisor vote for CEO removal were designed to facilitate efficient County response to the financial crisis. The County is studying or is in the process of implementing various other proposals for reorganization, including becoming a charter county.

*The Settlement Agreement.* On April 5, 1995, the County filed with the Bankruptcy Court the Settlement Agreement. The effectiveness of the Settlement Agreement was contingent upon acceptance of the Settlement Agreement within approximately three weeks by at least 80% of the Pool Participants holding at least 90% in aggregate amount of the non-County investment balances in the Pool. The requisite number of Pool Participants accepted the Settlement Agreement, and on May 2, 1995 the Bankruptcy Court entered an order approving the Settlement Agreement and authorizing the County to perform its respective obligations under the Settlement Agreement.

The Settlement Agreement generally provides for distributing to Pool Participants their remaining investment balances in the Pool which constitute approximately 77% of the Pool Participants' aggregate investment balances. This amount was distributed to Pool Participants on May 19, 1995. Moreover, the Settlement Agreement enables Pool Participants to select one of two options for the treatment of the deficiency between that distribution and their investment balances. Under "Option B," which was selected by less than 10% of the Pool Participants, Pool Participants generally reserve their rights to litigate against the County to recover their deficiency. Under "Option A," which was selected by more than 90% of the Pool Participants (the "Option A Pool Participants"), Option A Pool Participants release any and all Pool-related claims they may have against the County and assign to the County any and all Pool-related claims they may have against third parties, and receive in exchange the following three types of consideration, intended to enable the Option A Pool Participants eventually to receive approximately 100% of their investment balances.

The first component of consideration consists of approximately \$236 million in "Recovery Notes" to be distributed to Option A Pool Participants in amounts such that (a) each Option A Pool Participant that is a school district or school-related entity (the "School Pool

Participants") will receive approximately \$.13 for each \$1.00 invested in the Pool and (b) the other Option A Pool Participants will receive approximately \$.03 for each \$1.00 invested in the Pool. The Recovery Notes constitute administrative claims under Section 364(c)(1) of the Bankruptcy Code, with priority over all other administrative expenses and unsecured claims against the County, subject to certain carve-out expenses for professional and legal fees incurred by the County in the bankruptcy proceedings. Under the Settlement Agreement, the County is required to use its "best efforts" to monetize the Recovery Notes, and plans to do so with the net proceeds of the Bonds, thereby avoiding the potential insolvencies by some School Pool Participants that could result in bankruptcies and/or state trusteeships. Upon the receipt of proceeds of the Bonds, School Pool Participants will have received approximately 90% of the principal portion of their investment and other Pool Participants will have received approximately 80%.

The second component of consideration consists of approximately \$343 million of "Settlement Secured Claims" allocated to the Option A Pool Participants that are not School Pool Participants in an amount that provides them the approximately 90% level of recovery provided to School Pool Participants through the Recovery Notes. The Settlement Secured Claims are allowed general claims in the County's bankruptcy case that are secured by a first priority security interest in a ratable share of 65% of the net proceeds the County receives from the assertion of certain Pool-related claims against third parties. See "LITIGATION" below.

The third and final component of consideration consists of approximately \$514 million of "Repayment Claims" that represent the final approximately \$.10 increment of the deficiency claims asserted by Option A Pool Participants. The Repayment Claims are allowed general unsecured claims in the County's bankruptcy case on account of which the holder is not entitled to receive any payment from the County or out of any assets of the County, whether under a plan of adjustment or otherwise, until the payment in full of all "Senior Claims" against the County and the payment of postpetition interest thereon. "Senior Claims" include, among other indebtedness, short-term debt for borrowed money, some trade debt incurred prior to the commencement of the County's bankruptcy case, and certain other indebtedness of the County.

On May 23, 1995, the Bankruptcy Court determined that the Pool was not eligible for bankruptcy relief because it is not a "municipality" specifically authorized by State law to file for bankruptcy protection and that the Pool's bankruptcy case would be dismissed. The County expects that all orders made in the Pool's case, including the order approving the Settlement Agreement, will be preserved or otherwise protected.

*Financing Plan.* In addition to budget cuts, administrative reorganization, and settling with Pool Participants, the Recovery Plan includes plans to raise funds through asset sales, maximizing the County's solid waste system revenues, restructuring the program by which the County guarantees to local entities the full amount of ad valorem property taxes to which such entities are entitled (the "Teeter Program") to create greater economic efficiencies, implementing a half-cent sales tax increase for up to ten years, utilizing litigation proceeds to accelerate repayment of remaining claims and issuing long-term debt to repay certain obligations.

The Bonds are being issued to accomplish the first component of the return to Pool Participants of their investment losses pursuant to the Settlement Agreement as described above under "The Settlement Agreement." Following the execution and delivery of the Bonds, the County plans to issue Teeter Bonds in June to retire \$175 million of Teeter Notes due June 30, 1995, generate additional revenues for the County's general fund and provide a method to advance future delinquent tax receipts annually. The Teeter Bonds will be payable from delinquent tax receivables sold by the County to a joint powers authority without recourse to the County general fund. Tax and revenue anticipation notes may be issued by the County in July to provide funds to help the County meet its cash flow needs for Fiscal Year 1995-96. Another motor vehicle license fee lease financing of up to approximately \$550 million may be issued, as well as up to approximately a \$500 million solid waste management system financing supported by an increase in the landfill tipping fees and the importation of out-of-County waste. The proceeds of such financings, if issued, would be applied to meet County obligations. There is no assurance that the financing plan will be implemented in whole or in any particular part or in the form herein described.

*Negotiations Regarding County Notes.* With five note issues totaling approximately \$975 million maturing between June 30 and August 15, 1995, the County has been exploring all means possible to satisfy its obligations on a timely basis. The first two of the bond issues--\$175 million of Taxable and Tax Exempt Teeter Notes -- mature on June 30 and are expected to be paid with proceeds of the Teeter Bonds and other available monies. Due to the uncertainty of the half-cent sales tax vote and the short time period remaining before the other three issues mature, the County has been involved in negotiations with its creditors for an extension of the note maturity dates of these three note issues. Such extensions, if negotiated, will likely provide for the payment of some interest on a current basis and possibly accrue additional interest to some future date. Certain creditors have filed objections to these extensions with the Bankruptcy Court. There is no assurance that an agreement will be reached and approved by the Bankruptcy Court or that the County will not default on some or all of these note issues.

*One-Half Cent Sales Tax Increase Ballot Proposal.* By unanimous vote of the Board of Supervisors, the County has submitted to the voters for election on June 27, 1995, a proposal to increase the countywide sales tax by one-half cent for up to ten years ("Measure R"). If Measure R passes, the additional sales taxes are expected to produce approximately \$130 million of additional income annually for the County general fund and to contribute substantially to enabling the County to meet its obligations and recover from the bankruptcy. However, Measure R could be challenged in court. The County cannot predict the ultimate outcome of such a challenge should it arise. If Measure R does not pass, the County will likely not be able to meet all of its obligations, including but not limited to the payment in full of its outstanding short-term indebtedness, and will need to seek other alternatives to address its financial situation. The County cannot currently predict when it will be able to emerge from its Chapter 9 bankruptcy.

## INVESTMENT POLICY FOR COUNTY'S INVESTMENT POOLS

The Treasurer of the County has been granted the authority to deposit and invest County and County agency funds under the Treasurer's control pursuant to California Government Code Section 53600 et seq. and certain resolutions of the County Board of Supervisors. Additionally, the Treasurer may deposit and invest school district funds pursuant to the California Education and Government Codes and local agency funds pursuant to a procedure within California Government Code Section 53684. Following the bankruptcy filing by the Pool and the County. The Board of Supervisors established a Treasury Oversight Committee (the "Oversight Committee") comprised of five citizens to review the Treasurer's investments and ensure adherence to the stated policies. On March 17, 1995, the Board of Supervisors appointed a Treasurer to fill the unexpired term until December 1996.

The Treasurer has proposed two new guidelines for treasury investments (the "Short Term Investment Pool Policy" and the "Money Market Investment Pool Policy," together, the "Investment Policies"). The Investment Policies require investment of public funds in a manner which will, in order of priority, maintain safety of principal, meet fund participants' daily cash flow needs and achieve the highest yields, while conforming to all applicable State and County public funds investment statutes. The maximum maturity of investments under the Investment Policies is one year with a maximum average duration of 120 days for the Short Term Investment Pool Policy and 90 days for the Money Market Investment Pool Policy. The value of both pools will be determined by marking to market monthly. The Treasurer anticipates establishing policies for other types of investment pools which will mandate that moneys be invested no longer than the estimated date of withdrawal with a maximum maturity of five years. To further maintain safety, the Treasurer proposes to adhere to an investment strategy of diversification in regard to instruments and maturities, as well as establishing internal controls for proper accounting and reporting, the continuous evaluation of the investment policy, document safekeeping and collateralization, and the authorization of financial dealers.

The assets in the investment pools are required to be of the highest quality and shall consist of instruments backed by the full faith and credit of the United States; obligations issued or guaranteed by agencies of the U.S. Government; commercial paper of the highest rating provided by Moody's Investors Service and Standard & Poor's Corporation with further restrictions regarding issuer size and maturity; negotiable certificates of deposit issued by state or federally-chartered banks with at least one billion dollars in assets; bankers acceptances; money market funds; and repurchase agreements collateralized by securities issued or guaranteed by the U.S. Government and its agencies provided the collateral value is maintained at 102% of repurchase price. All permitted investments shall comply in all respects with California Government Code Sections 53601 and 53635.

The Treasurer's Investment Policies expressly prohibit utilizing borrowing for investment purposes (leverage), reverse repurchase agreements, and structured notes or derivatives. Under the Investment Policies no more than 10% of total assets may be invested in securities of any one issuer with the exception of obligations of the U.S. Government and its agencies. All investments will be U.S. dollar denominated.

Furthermore, the Treasurer proposes that all County personnel involved in the investment process act as custodians of the public trust and be held to the prudent person standard regarding the making of investment decisions. In addition, the Treasurer will submit monthly reports to the Oversight Committee, the Chief Executive Officer and the Board of Supervisors with sufficient information for evaluation of the performance of the investment program.

The Treasurer's Investment Policies were approved by the Oversight Committee on June 7, 1995 and provide for the approval of the Board of Supervisors prior to the Treasurer deeming them final. Although the Treasurer intends to seek approval of the Oversight Committee and the Board of Supervisors prior to the institution of any additions, amendments or other modifications to the current or proposed investment policies, the Treasurer continues to have the authority to modify or amend the policies at any time without such approval.

### **BUDGET INFORMATION RELATING TO THE COUNTY**

The County's General Fund Budget totaled \$1.6 billion for Fiscal Year 1994-95, as originally adopted. The General Fund Budget grew from \$1.47 billion in Fiscal Year 1992-93 to \$1.64 billion in Fiscal Year 1994-95. Revenues were derived primarily from inter-governmental revenues from State and federal sources, accounting for 59% of budgeted Fiscal Year 1994-95 revenues. Taxes declined from \$269.9 million in Fiscal Year 1992-93 to \$110.8 million in Fiscal Year 1994-95 due primarily to changes in local government financing by the State Legislature. The State Legislature shifted \$2.1 billion in property taxes in Fiscal Year 1993-94 from counties to school and community college districts. This shift resulted in a loss of \$150 million to the County's general fund. On November 3, 1993, in a statewide election, voters approved Proposition 172 to permanently extend the half-cent sales tax which had been imposed by the State to partially offset the property tax loss. This replacement revenue was dedicated specifically for public safety purposes. The County responded to this loss of discretionary revenue, in part, through increasing dependence upon interest income from the Pool. Revenues derived from interest earnings on investment in the Pool grew from \$35.7 million, 7% of general fund revenues in Fiscal Year 1992-93 to \$164 million, 35% of general fund revenues in Fiscal Year 1994-95. See "COUNTY OF ORANGE BANKRUPTCY--Background of Bankruptcy" above.

#### **County General Fund Budget**

The table below provides final budgets for the County General Fund for Fiscal Years 1992-93, 1993-94 and 1994-95.

**TABLE 1**  
**COUNTY GENERAL FUND**  
**FINAL BUDGET FOR FISCAL YEARS 1992-93 THROUGH 1994-95**

	<b>Final Budget 1992-93</b>	<b>Final Budget 1993-94</b>	<b>Final Budget 1994-95</b>
<b>REQUIREMENTS:</b>			
Public Protection	\$379,024,263	\$416,641,631	\$456,975,128
Health Services	225,793,588	227,548,448	236,278,107
Community and Social Services	548,938,085	545,907,250	575,153,682
Environmental Resources	100,899,166	112,776,469	98,006,684
General Government & Services	123,228,706	120,813,978	122,295,848
Capital Improvements	23,728,374	32,720,321	44,907,573
Debt Service	6,769,657	6,981,474	7,668,135
Insurance, Reserves & Miscellaneous	70,094,466	141,464,827	102,478,399
<b>Total Requirements</b>	<b><u>\$1,478,476,305</u></b>	<b><u>\$1,604,854,398</u></b>	<b><u>\$1,643,763,556</u></b>
<b>AVAILABLE FUNDS:</b>			
Taxes <sup>(1)</sup>	269,850,000	192,035,000	110,800,000
Licenses, Permits and Franchises	6,257,202	5,591,633	6,142,630
Fines, Forfeitures and Penalties	14,128,318	12,979,996	31,059,737
Use of Money and Property <sup>(2)</sup>	37,676,267	62,481,438	167,573,747
Intergovernmental Revenues <sup>(3)</sup>	827,096,384	958,357,290	966,529,931
Charges for Services	212,512,297	240,109,552	253,521,969
Miscellaneous Revenues	31,522,986	38,668,424	35,227,914
Other Financing Sources	67,853,927	94,631,065	72,907,628
Residual Equity Transfers	11,578,924	0	0
<b>Total Available Funds</b>	<b><u>\$1,478,476,305</u></b>	<b><u>\$1,604,854,398</u></b>	<b><u>\$1,643,763,556</u></b>

*Source: County of Orange*

- (1) Taxes include property taxes and sales taxes. Property tax revenues declined from \$239,258,279 in Fiscal Year 1992-93 to \$155,876,526 in Fiscal Year 1993-94 due to the State of California property tax shift from counties to school and community colleges. Budgeted Fiscal Year 1994-95 property tax revenues are \$95,495,000.
- (2) Interest income is included in the Use of Money and Property revenue line item and represents \$163,838,490 million of Fiscal Year 1994-95 budgeted general fund revenue.
- (3) Intergovernmental Revenues are comprised of federal and state grants and matching funds and state-distributed revenues, including Motor Vehicle License Fees.

## **Adjustments to the Final Budget for Fiscal Year 1994-95**

In response to the December 6, 1994 filing of bankruptcy by the County, the Board of Supervisors adopted a mid-year revision to the Fiscal Year 1994-95 Final Budget reflected in Table 1 above. On December 22, 1994 action by the Board resulted in a \$40 million reduction in the County's General Fund budget.

## **Proposed Budget for Fiscal Year 1995-96**

The bankruptcy of the County has caused a major departure from established procedures and policies for the budget process. Previously County departments and agencies would receive budget instructions for the following year's budget in early January preceding the July 1 beginning of the next budget year. Budget submittals would be required to be received by the County Administrative Office (the "CAO") at the end of March. Negotiations between the CAO and the various budget entities would take place over two months. Program needs and estimated revenues would be analyzed and validated. The County Board of Supervisors would approve a Proposed Budget at the end of June for the ensuing fiscal year. As required by statute, public hearings would be scheduled no later than September 18 and the Board of Supervisors would adopt a budget by October 2. It is normal to amend the proposed budget due to changes in available sources of funding. Some examples are the timing of the approval of the State budget, finalization of fund balance available and assessed valuation of real property. County budget figures, both appropriations and revenues, are finalized when the Board of Supervisors adopts the final budget, which can be no later than October 2.

After the County bankruptcy, the planning horizon became immediate. County departments and agencies were required to submit budgets balanced to a target figure of revenue which would not change. See "COUNTY OF ORANGE BANKRUPTCY--Recovery Plan" above. The targets were processed as a "mid-year adjustment" but were in fact the actual proposed budget figures for Fiscal Year 1995-96. All budgets were due by the end of February. On March 14, 1995 the Board of Supervisors received the adjusted budget for Fiscal Year 1994-95, which contained cuts to be rolled forward for the required Fiscal Year 1995-96 budget target. Public hearings were held on March 14 and 15.

For all practical purposes, the proposed budget for Fiscal Year 1995-96 was completed on March 30, 1995. As required by state law, the proposed budget is balanced. It includes payment of current debt service on all outstanding long-term bonds, and rental payments on all long-term financing leases of the County. The County will still comply with the statutory required budget related actions which include public budget hearings and adoption of a final budget by the Board of Supervisors which actions could run through October 2, 1995.

## **CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS**

### **Article XIII A of the State Constitution**

Section 1(a) of Article XIII A of the State Constitution limits the maximum ad valorem tax on real property to 1% of full cash value (as defined in Section 2 of Article XIII A), to be collected by counties and apportioned according to law. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to (1) ad valorem taxes to pay interest or redemption charges on indebtedness approved by the voters prior to July 1, 1978, or (2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition. Section 2 of Article XIII A defines "full cash value" to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment" ("Full Cash Value"). The Full Cash Value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors.

Legislation enacted by the State Legislature to implement Article XIII A provides that notwithstanding any other law, local agencies may not levy any ad valorem property tax except to pay debt service on indebtedness approved by the voters as described above.

The voters of the State subsequently approved various measures which further amended Article XIII A. One such amendment generally provides that the purchase or transfer of (i) real property between spouses or (ii) the principal residence and the first \$1,000,000 of the Full Cash Value of other real property between parents and children, do not constitute a "purchase" or "change of ownership" triggering reappraisal under Article XIII A. Other amendments permit the State Legislature to allow persons over the age of 55 who meet certain criteria or "severely disabled homeowners" who sell their residence and buy or build another of equal or lesser value within two years in the same county, to transfer the old residence's assessed value to the new residence. Other amendments permit the State Legislature to allow persons who are either 55 years of age or older, or who are "severely disabled," to transfer the old residence's assessed value to their new residence located in either the same or a different county and acquired or newly constructed within two years of the sale of their old residence.

In the November 1990 election, the voters approved an amendment of Article XIII A to permit the State Legislature to exclude from the definition of "new construction" certain additions and improvements, including seismic retrofitting improvements and improvements utilizing earthquake hazard mitigation technologies constructed or installed in existing buildings after November 6, 1990.

Article XIII A has also been amended to provide that there would be no increase in the Full Cash Value base in the event of reconstruction of property damaged or destroyed in

a disaster. Because of the recent decrease in property values in certain areas of the State, certain counties have announced that they will review the assessed value of properties within those counties. See APPENDIX A--"THE COUNTY OF ORANGE--Assessed Valuations."

Section 4 of Article XIII A provides that cities, counties and special districts cannot, without a two-thirds vote of the qualified electors, impose special taxes, which have been interpreted to include certain special fees in excess of the cost of providing the services or facility for which the fee is charged.

#### **Article XIII B of the State Constitution**

State and local government agencies in California are each subject to annual "appropriations limits" imposed by Article XIII B of the Constitution of the State of California ("Article XIII B"). Article XIII B prohibits government agencies and the State from spending "appropriations subject to limitation" in excess of the appropriations limit imposed. "Appropriations subject to limitation" are generally authorizations to spend "proceeds of taxes," which include all, but are not limited to, tax revenues, and the proceeds from (i) regulatory licenses, user charges or other user fees to the extent that such proceeds exceed "the cost reasonably borne by that entity in providing the regulation, product, or service," (ii) the investment of tax revenues, and (iii) certain subventions received from the State. No limit is imposed on appropriations of funds which are not "proceeds of taxes," appropriated for debt service on indebtedness existing prior to the passage of Article XIII B or authorized by the voters, or required to comply with certain mandates of courts or the federal government.

As amended at the June 5, 1990 election by Proposition 111, Article XIII B provides that, in general terms, the County's appropriations limit is based on the limit for the prior year adjusted annually to reflect changes in cost of living and population and, when appropriate, the transfer of financial responsibility of providing services from one governmental unit to another. Proposition 111 has liberalized the aforementioned adjustment factors as compared to the original provisions of Article XIII B. If County revenues during any two consecutive Fiscal Years exceed the combined appropriations limits for those two years, the excess must be returned by a revision of tax rates or fee schedules within the two subsequent fiscal years.

Section 7900 et seq. of the Government Code of the State of California defines certain terms used in Article XIII B and sets forth the methods for determining the appropriations limits for local jurisdictions. Relying on these definitions, and Chapter 60, Statutes of 1990 effective July 1, 1990 which implemented Proposition 111, the County has determined that its appropriations limit for "proceeds of taxes" for Fiscal Year 1995 is \$1,080,161,273. Pursuant to the Fiscal Year 1994-95 budget, "appropriations subject to the limitation" are \$261,567,655, or \$818,593,618 under the limit.

## **Statutory Spending Limits**

A statutory initiative ("Proposition 62") was adopted by the voters voting in the State at the November 4, 1986 General Election which (1) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency's legislative body and by a majority of the electorate of the governmental entity voting in such election, (2) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within that jurisdiction voting in such election, (3) restricts the use of revenues from a special tax to the purpose or for the service for which the special tax was imposed, (4) prohibits the imposition of ad valorem taxes on real property by local governmental entities (except for county or city documentary transfer taxes) except as permitted by Article XIII A, (5) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities and (6) requires that any tax imposed by a local governmental entity on or after August 1, 1985 be ratified by a majority vote of the electorate voting in such election within two years of the adoption of the initiative or be terminated by November 15, 1988. While several decisions of State Courts of Appeal have held that all or portions of the provisions of Proposition 62 requiring a majority vote approval of the electorate for general fund taxes are unconstitutional, no case presenting this issue has been presented to the State Supreme Court, and that Court has yet to decide the matter.

## **TAX MATTERS**

In the opinion of Bond Counsel, assuming continuing compliance by the County with certain covenants relating to requirements contained in the Internal Revenue Code of 1986 (the "Code"), interest on the Bonds is not includable in the gross income of the owners thereof for Federal income tax purposes under existing statutes and court decisions. Moreover, interest on the Bonds is not an "item of tax preference" for purposes of the individual and corporate alternative minimum taxes and the corporate environmental tax imposed by the Code. However, interest on the Bonds is includable in the "adjusted current earnings" of a corporate owner of the Bonds and 75% of the interest on the Bonds is thus includable in the tax base for computing a corporation's liability with respect to the 20% alternative minimum tax and the 0.12% environmental tax that are imposed on corporations by the Code. (Such 0.12% corporation environmental tax is generally scheduled to terminate for taxable years beginning after December 31, 1995.) Moreover, interest on the Bonds may be subject to a branch profits tax of up to 30% when owned by certain foreign corporations. Furthermore, interest on the Bonds may be subject to tax at ordinary income rates when owned by "S Corporations" in certain cases.

In the opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income taxes under existing statutes and court decisions.

The opinion of Bond Counsel as to the treatment for Federal income tax purposes of the original issue discount on the Bonds maturing on June 1 in the years 2001, 2002, 2003, 2006, 2007 and 2015 is appended hereto as Appendix F.

Bond Counsel expresses no opinion regarding other tax consequences arising with respect to the Bonds.

### VALIDATION ACTION

Pursuant to California Code of Civil Procedure Section 860, et seq., and Government Code Section 53510, et seq. (collectively, the "Validation Act"), on April 11, 1995, the County filed a Complaint for Validation (County of Orange v. All Persons Interested, etc., Case No. 74-55-37) (the "Complaint") in the Superior Court of the State of California for the County of Orange (the "Court"). The Complaint sought to validate the County's issuance of the Warrants, the Bonds and any other evidences of refunding indebtedness (and all proceedings related thereto) in partial satisfaction of certain tort claims raised by certain Pool Participants against the County involving the Pool. Five parties answered the Complaint and one of the answering parties also filed a demurrer (the "Demurrer") seeking dismissal of the Complaint on the asserted basis that the proposed financing constituted debt within the meaning of Article XVI, Section 18 of the California Constitution (the "Debt Limitation Provision") and could not, therefore, be effected without a bond election. The Court conducted a hearing on the Demurrer on May 31, 1995, and on June 1, 1995, entered an Order denying the Demurrer on the grounds that the obligations of the County being discharged by the proposed financing are involuntary tort obligations imposed by law and therefore not subject to the Debt Limitation Provision. Thereafter, all of the answering parties withdrew their answers and appearances and the Court entered a default judgment on June 5, 1995 (the "Judgment"). The Judgment provides, among other things, that the County properly commenced the validation proceeding; that the County provided proper notice to, and obtained jurisdiction over, all interested persons; that the County is authorized under Section 29803 of the California Government Code to issue the Warrants; that the County is authorized under Sections 53571 and 53583 of the California Government Code to issue the Bonds; that the County is authorized to issue other evidences of indebtedness relating to the Warrants and the Bonds; that the Warrants, the Bonds and related evidences of refunding indebtedness constitute involuntary obligations imposed by law which are not subject to the Debt Limitation Provision; and that all persons are permanently enjoined and restrained from challenging any and all matters which could have been adjudicated in the action. An appeal, if any, from the Judgment may be taken within 30 days of notice of its entry. As a result of the answering parties withdrawing their answers and waiving all rights to appeal the Judgment, among other factors, Bond Counsel is of the opinion that under the Validation Act only issues related to the jurisdiction of the Court to enter a judgment in the action may be raised on appeal and that there would be no basis for any such assertion.

## LITIGATION

The execution and delivery of the Trust Agreement and the issuance of the Bonds has been approved by a Bankruptcy Court Order issued on June 5, 1995 and a validation judgment entered by the Orange County Superior Court on June 5, 1995. See "VALIDATION ACTION". No litigation is pending or threatened concerning the validity of the Trust Agreement or the Bonds, except that the appeal period with respect to the validation judgment has not yet expired. See "VALIDATION ACTION" above.

Pursuant to the Bankruptcy Code, substantially all pending litigation and collection of outstanding claims against the County at the date of the bankruptcy filing were stayed while the County continues its municipal operations. The Bankruptcy Code prohibits creditors who are subject to the jurisdiction of the Bankruptcy Court from attempting to collect their prepetition debts from the County, either by commencement or continuation of a lawsuit or otherwise, unless the Bankruptcy Court terminates or specifically consents to make such payments. Accordingly, all such actions that were pending against the County were automatically stayed upon the filing of the bankruptcy petition by the County. From time to time the County anticipates that various parties may make applications to vacate or modify such stay. However, the County intends to oppose such applications that are not in the best interest of the County.

Certain holders of the County's Tax and Revenue Anticipation Notes, Series 1994A (the "Series A holders") filed a motion for relief from the automatic stay in order to commence a state court action to compel the County to make the revenue set asides required under the resolution authorizing the Notes. See "COUNTY OF ORANGE BANKRUPTCY--Defaults on Outstanding Obligations." The bankruptcy court denied the relief requested, and the Series A holders have appealed this denial to the U.S. District Court, and initiated an adversary proceeding seeking an order requiring the County to make the aforementioned set asides. The adversary proceeding has been stayed pending disposition of the appeal. The County currently lacks the financial resources necessary to make the aforementioned set asides. On June 5, 1995 certain of the Series A holders filed an opposition with the Bankruptcy Court to the County's motion to approve the retirement of \$175 million of 1994 Teeter Notes. No assurance can be given as to the effect this motion may have on the issuance of the Teeter Bonds.

Following the approximately \$1.7 billion losses in the Pool's investment portfolio various Pool Participants filed in the Bankruptcy Court pleadings asserting a variety of tort claims against the County, including breach of fiduciary duty, fraud and negligence, and asserted trust claims seeking the full amount of the funds they had placed in the Pool. After extensive negotiations between the County and representatives of the Pool Participants, the County and the Pool Participants entered into the Settlement Agreement. Pursuant to "Option-B" of the Settlement Agreement, which was selected by holders of less than 10% of the aggregate investment balances of the Pool Participants, such Pool Participants have reserved their right to litigate against the County to recover their loss in the Pool. See "COUNTY OF ORANGE BANKRUPTCY--Background of Bankruptcy". Option B Pool Participants have announced their intent to sue the County for \$100 million in respect of their Pool losses. One of the Pool

Participants that elected Option B filed an action to recover the principal amount of its investment in April 1995.

The hearing on the Settlement Agreement was held on May 2, 1995. Before that date, a number of objections to the Settlement Agreement had been filed by certain creditors, including by holders of the County's 1994-95 (Teeter Plan) Taxable Notes and the 1994-95 (Teeter Plan) Tax-Exempt Notes (collectively the "Teeter Notes"). The holders of the Teeter Notes contended that the Settlement Agreement did not adequately address the claims of those holders pursuant to certain prepetition agreements entitled Standby Note Purchase Agreements ("SNPA"), allegedly entered into between the Pool and the County. The Bankruptcy Court overruled this objection and found that the proposed Settlement Agreement and the form of the Order thereon properly and adequately addressed the claims, if any, of the holders of the Teeter Notes under the SNPA. Notwithstanding the Court's ruling, certain holders of the Teeter Notes (the "Appellants") have filed a notice of appeal from Judge Ryan's order, but the appellants did not seek or obtain a stay pending appeal or other injunctive relief. Accordingly, pursuant to the Federal Rules of Civil Procedure and applicable law, on or about May 11, 1995, Judge Ryan's order became effective notwithstanding the pendency of the appeal. The County has made the distributions required under the Settlement Agreement to Settling Pool Participants. The County maintains that the above-referenced appeal has been rendered moot by reason of, among other things, the County's performance under the Settlement and Bankruptcy Code Section 364(e), which the County maintains requires the obtaining of a stay pending appeal in order to prevent enforcement of the grant of a superiority claim under Bankruptcy Code Section 364. To date, the County has not moved to dismiss the appeal. Nevertheless, the Appellants have agreed to dismiss with prejudice any aspect of their appeal relating to the validity, enforceability, priority and security of the Bonds.

Various other adversary proceedings against the County have commenced in the Bankruptcy Court.

Apart from funds invested by Pool Participants, the Pool managed and had custody of Federal and State grants, court deposits, enterprise funds and funds of agencies and districts wholly controlled by the County. Such funds were also diminished by the Pool losses, and such entities may contend that the County has the obligation to restore in full the amounts lost, which are substantial. The claims of such entities are not included in the Settlement Agreement.

The nature of a municipal bankruptcy case is to have all claims against the County resolved. Accordingly, the County intends to request that the Bankruptcy Court order that any entity that wishes to participate in any distributions which may be made under a plan of adjustment must either be properly scheduled by the County or file a proof of claim with the Bankruptcy Court on or before a date to be established by the Court. Each claim filed will have to be examined to determine whether it should be allowed (not contested by the County) or objected to by the County and disallowed by the Court. It is anticipated that creditors and alleged creditors will file claims asserting combined dollar liability of the County far in excess of the liabilities reflected by the County in its books and records.

The County is the plaintiff in several adversary proceedings relating to the events leading to the County's bankruptcy. On January 12, 1995, the County and the Pool filed an Adversary Complaint in the Bankruptcy Court against Merrill Lynch and Co., Inc., Merrill Lynch Pierce Fenner & Smith, Inc., Merrill Lynch Government Securities, Inc. Merrill Lynch Capital Services, Inc. and Merrill Lynch Money Markets, Inc. (hereinafter collectively "Merrill Lynch"). On June 6, 1995, the County filed its First Amended Complaint (the "Amended Complaint") in the adversary proceedings. The Amended Complaint alleges that Merrill Lynch violated state and federal laws in the course of Merrill Lynch's relationship with the County and the Pool, including allegations of breach of fiduciary duty and securities fraud. The Amended Complaint seeks damages in excess of \$2 billion, and injunctive and other relief.

On December 9, 1994, the County filed suit against Nomura Securities Company ("Nomura") for liquidating, subsequent to the County's December 6, 1994 Chapter 9 bankruptcy petition, approximately \$900 million of bonds and structured notes, purportedly held as collateral. The suit alleged that Nomura's liquidation of these bonds and notes despite its knowledge of the County's bankruptcy petition violated the automatic stay provisions of Bankruptcy Code Section 362(a). If so, the County would be entitled to recover, among other things, all the losses caused by Nomura's liquidation. The County has similar claims against certain other brokers who liquidated securities.

The original suit against Nomura has been voluntarily dismissed by the County. The County is now evaluating filing an amended complaint against Nomura to expand the action to include other legal theories similar to the claims which the County has brought against Merrill Lynch. In addition, the County is investigating whether to file similar claims against other brokerage houses with whom the County dealt.

During the course of their work for the County rendering investment advice, assisting in bond offerings or providing other financial services, various financial and legal firms (other than those mentioned on the cover of the Official Statement) became aware of the risks associated with the County's investment strategy and the significant risk of loss to the Pool. The County is currently investigating the potential claims it may have against these firms.

Various governmental authorities are currently conducting investigations into the matters surrounding the County's bankruptcy. The Securities and Exchange Commission (the "SEC") and the Commodities Futures Trading Commission (the "CFTC") are each conducting investigations of the Pool and County bond offerings pursuant to a formal order of investigation. The District Attorney for the County is conducting a criminal investigation. In connection with such investigation, the former County Treasurer-Tax Collector pleaded guilty to two felony counts of violating Corporation's Code § 25401, making untrue material statements in connection with the sale of securities, and four felony counts of violating Penal Code § 424, related to misappropriation of public funds, the failure to transfer public funds, and maintaining false entries in a public record. In addition, the former County Assistant Treasurer has been indicted on the same six felony counts. Other investigations in connection with the County's bankruptcy are being conducted by the County Grand Jury, the U.S. Attorney's Office in conjunction with a federal grand jury, the California Department of Corporation and the California Legislature. The County is cooperating with all of these investigations.

In response to the County's bankruptcy filing, the California Senate formed a special committee to investigate issues relating to the County's bankruptcy, including issues related to local agency investment activity. The Senate Special Committee on Local Government Investments held public hearings on the County's bankruptcy.

On March 28, 1995, California's State Auditor issued an audit report critical of the investment strategy and practices pursued by the former Treasurer. The audit report found, among other things, that the Treasurer violated the basic principles of prudent investing, made investments that were unsafe, highly risky and extremely volatile, leveraged the portfolio more than 2.7 times, invested more than 40 percent in inverse floaters and other structured securities, and violated his trust responsibilities by altering accounting records and misallocating earnings and losses. The State Auditor is continuing to review the efforts of the County to restructure and recover from bankruptcy. In a report issued on May 22, 1995 the State Auditor concluded, among other things, that without the sales tax increase, the County's Recovery Plan as currently structured will not succeed.

In addition to the litigation and investigations concerning the bankruptcy of the County, at any given time there are a number of lawsuits or claims pending against the County. In the opinion of the Office of the County Counsel, it is unlikely that the lawsuits or claims will materially affect the County's ability to pay the Bonds, assuming that the County's payments for claims and judgments are consistent with historical levels and that the County retains the current level of reserves against claims and judgments.

#### **UNDERWRITING**

The Bonds are being purchased by Goldman, Sachs & Co. and A.G. Edwards & Sons, Inc. (collectively, the "Underwriters") from the County. The Underwriters have agreed to purchase the Bonds at a purchase price equal to \$271,726,858.95 plus accrued interest. The purchase contract pursuant to which the Bonds are being sold provides that the Underwriters will purchase all of the Bonds if any such Bonds are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such purchase contract, the approval of certain legal matters by counsel and certain other conditions.

The Underwriters may offer and sell the Bonds to certain dealers and others at a price lower than the offering price stated on the cover page hereof. The offering price may be changed from time to time by the Underwriters.

#### **FINANCIAL STATEMENTS (UNAUDITED)**

The financial statements for Fiscal Year ended June 30, 1994 attached hereto as part of Appendix B have been prepared by the County. As a result of the bankruptcy proceedings, these financial statements are unaudited. Material adverse changes have occurred in the financial condition of the County, including conditions reflected in its balance sheet, income statement and fund balances since June 30, 1994. As explained in Note 1 to the

financial statements, the financial statements have been adjusted to reflect an estimated loss in the portfolio based upon realized liquidated value of the securities held in the Pool. The only interim financial statements the County is able to provide at this time, also unaudited, is the interim statement of general fund revenues and expenditures prepared on a budgetary basis, for the period ended March 31, 1995, which is also included in Appendix B. The County is in the process of selecting auditors to audit its financial statements. See generally "COUNTY OF ORANGE BANKRUPTCY" herein.

### **CONTINUING DISCLOSURE**

The County voluntarily (and not subject to SEC Rule 15c2-12(b)(5)) has covenanted for the benefit of the Bond Owners to provide certain financial information and operating data relating to the County by not later than December 31 in each year commencing December 31, 1996 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events. The Annual Report and any notices of material events will be filed by the County with each nationally recognized municipal securities information repository. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized under the caption "APPENDIX G--Summary of Continuing Disclosure Certificate."

### **CERTAIN LEGAL MATTERS**

The legality of the Bonds and certain other legal matters are subject to the approval of Willkie Farr & Gallagher, New York, New York, Bond Counsel. The approving opinions of such counsel will be delivered with the Bonds in substantially the forms set forth in Appendix D. Certain legal matters will be passed upon for the Underwriters by Orrick, Herrington & Sutcliffe, San Francisco, California. Certain legal matters will be passed upon for the County by the Office of the County Counsel. Certain legal matters will be passed upon for MBIA by Kutak Rock, Omaha, Nebraska.

### **FINANCIAL ADVISOR**

Salomon Brothers Inc has acted as the Financial Advisor to the County in connection with the execution and delivery of the Bonds.

### **IN MEMORIAM**

The County and its financing team wish to express their gratitude for and acknowledge the substantial contribution made by Barry V. Bengé, of Salomon Brothers Inc, who died on May 3, 1995 while working on the County's Recovery Plan, including this financing.

## **MISCELLANEOUS**

References made herein to certain documents and reports are brief summaries thereof which do not purport to be complete or definitive and reference is made to such documents and reports for full and complete statements of the contents thereof.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the County and the purchasers or holders of any of the Bonds.

The execution and delivery of this Official Statement has been duly authorized by the County.

## **COUNTY OF ORANGE**

By: /s/ Gaddi H. Vasquez  
Gaddi H. Vasquez, Chairman

By: /s/ William J. Popejoy  
William J. Popejoy, Chief Executive Officer

## APPENDIX A

### THE COUNTY OF ORANGE DEMOGRAPHIC, ECONOMIC AND FISCAL OVERVIEW

#### Geography and Climate

The County is bordered on the north by Los Angeles and San Bernardino counties, on the east by Riverside County, on the southeast by San Diego County and on the west and southwest by the Pacific Ocean. Approximately 42 miles of ocean shoreline provide many beaches, marinas and other recreational areas for use by residents and visitors.

The climate in the County is mild, with an average annual rainfall of 13 inches. The mean temperatures range from a minimum of 48 degrees to a maximum of 76 degrees.

#### Population Growth During Last Decade

Orange County is the third most populous county in the State of California. During the period 1985 through 1994, the population of the County increased by approximately 21 percent, compared to 22 percent for the State and 9 percent for the United States (see Table 1).

**TABLE 1**  
**COUNTY OF ORANGE, STATE OF CALIFORNIA AND**  
**UNITED STATES COMPARISON OF POPULATION**  
**FOR YEARS 1985 THROUGH 1994 <sup>(1)</sup>**

<u>Date</u>	<u>Orange County</u>	<u>State of California</u>	<u>United States</u>
1985	2,143,600	26,113,000	237,677,000
1986	2,193,200	26,742,000	240,004,000
1987	2,243,500	27,388,000	242,324,000
1988	2,292,300	28,061,000	244,689,000
1989	2,344,200	28,771,000	247,098,000
1990	2,398,400	29,558,000	249,605,000
1991	2,450,200	30,325,000	250,686,000
1992	2,504,700	30,982,000	253,645,000
1993	2,557,300	31,522,000	256,614,000
1994	2,596,500	31,960,000	259,364,000

(1) California and U.S. figures are rounded to the nearest thousand; Orange County figures are rounded to the nearest hundred.

Source: California State Department of Finance and Bureau of Census, January 1, 1994

## Projected Growth Through 2020

Table 2 includes population projections for Orange County, the State of California and the United States. The County is expected to have growth rates lower than statewide levels but comparable to nationwide levels through the year 2020.

**TABLE 2**  
**COUNTY OF ORANGE, STATE OF CALIFORNIA AND**  
**UNITED STATES COMPARISON OF POPULATION PROJECTIONS**  
**1995 THROUGH 2020**

<u>Year</u>	<u>Orange County</u>	<u>State of California</u>	<u>United States</u>
1995	2,641,500	33,188,930	261,478,000
2000	2,867,900	36,443,857	273,646,000
2005	2,995,900	39,424,114	285,173,000
2010	3,108,000	42,408,137	296,907,000
2015	3,181,700	45,574,195	309,135,000
2020	3,255,500	48,976,518	321,395,000

*Source: Orange County Projections — 1992 (OCP-92) Prepared by the Orange County Forecast and Analysis Center, and adopted by the County Board of Supervisors June, 1992.*  
*State of California Projections — California Department of Finance.*  
*United States Projections — Bureau of the Census.*

## Housing Characteristics

The total number of housing units in the County was estimated by the California State Department of Finance to be 908,477 as of January 1, 1994. This compares to 875,072 reported in the 1990 Census. As of January 1995, the California Association of Realtors estimated the median value of an existing single-family home in the County to be \$202,650. This compares to \$177,230 for the State of California.

## Personal Income

Table 3 summarizes the total effective buying income for the County, the State and the nation. Between 1988 and 1993, the County's growth in median household effective buying income grew approximately 34 percent, compared to 31 percent for the State and 43 percent for the nation.

**TABLE 3**  
**COUNTY OF ORANGE, STATE OF CALIFORNIA AND**  
**UNITED STATES COMPARISON OF PERSONAL INCOME**  
**FOR YEARS 1988 THROUGH 1993**

<u>Year and Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
1988		
Orange County	38,034,417	37,096
California	426,174,001	30,088
United States	3,064,005,977	24,488
1989		
Orange County	39,243,128	37,614
California	444,988,647	30,713
United States	3,287,489,252	25,976
1990		
Orange County	43,950,506	41,179
California	477,784,771	33,342
United States	3,499,365,237	27,912
1991		
Orange County	47,229,731	46,655
California	490,749,649	36,943
United States	3,728,967,043	32,973
1992		
Orange County	49,156,539	47,774
California	509,152,667	37,686
United States	3,916,947,023	33,178
1993		
Orange County	50,945,788	49,750
California	528,958,745	39,330
United States	4,169,724,052	35,056

*Source: Sales and Marketing Management, Survey of Buying Power, 1993*

### **Industry Trends and Outlook**

The combination of Orange County's easy access to the Pacific Rim and the passage of the North American Free Trade Agreement (NAFTA) is projected to be a boon to the Orange County economy. According to the UC Irvine 1994 Orange County Executive Survey, international business is an important element in the Orange County economy. Forty-six percent of the companies surveyed conduct international business. Among these companies, 16% of their revenue is from international sales.

## **Mining**

Mining is the smallest industry in the County. Employment in this area is expected to decline to 700 by 1998 as oil companies scale back their oil and gas extraction in the County.

## **Construction**

The Orange County construction industry is composed of three groups; special trade contractors (including plumbers, electricians, carpenters and related workers); general building contractors (including residential and commercial builders); and heavy construction (including highway and bridge construction and maintenance). It is projected that construction employment, which is typically cyclical in nature, will increase by 5,100 for a total of 52,500 jobs in 1998.

## **Manufacturing**

Manufacturing jobs in the County have declined over the past several years. The bulk of this decline has been in the durable goods field, primarily in high-tech industries and in lumber, wood and furniture manufacturing industries. Due to continuing cutbacks in defense-related employment, these declines are expected to continue through the end of the 1992-98 forecast period. The nondurable goods field has shown a slow but steady increase, however, it is unlikely that this sector can generate enough growth to offset the expected continued decline in durable goods. The projected total of jobs in durable and nondurable goods by 1998 is 216,300.

## **Transportation and Public Utilities**

Transportation and public utility jobs are expected to continue to rise through 1998. The projected total number of jobs in transportation by 1998 is 37,800.

## **Wholesale Trade**

Wholesale trade jobs are expected to continue to rise through 1998. It is anticipated that employment will reach 80,000 by 1998.

## **Retail Trade**

Retail trade is the third largest industry in Orange County. The three largest industries within retail trade are eating and drinking establishments, food stores, and miscellaneous retail stores. Retail trade jobs declined by 17,300 or 7.8 percent between 1989 and 1991. Retail trade employment is expected to increase by 13,200 to a total of 214,400 by 1998. Many of the new jobs are expected to be concentrated in the southern part of the County as malls in that area continue to expand.

## **Finance, Insurance and Real Estate**

Orange County jobs in finance, insurance and real estate are expected to increase to 99,400 by 1998. This is due, in part, to the improvement in the previously sluggish real estate market and a stabilization of bank mergers.

## **Services**

The Services industry has shown a gain every year since 1972, with the exception of 1990-91, when it had a minimal loss of 200 jobs. The largest areas of growth are expected to continue to be in health services, business services, and amusement and recreation. It is expected that employment in this area will reach 348,700 by 1998.

## **Government**

The Government job sector in the County has had modest growth in the past ten years. Budgetary constraints in government are expected to slow this growth through 1998. However, growth is expected in state and local education as schools expand to serve the County's growing population of school-age residents.

## **Education (Elementary and Secondary)**

Public instruction in the County is provided by twelve elementary school districts, three high school districts and twelve unified (combined elementary and high school) districts. For the fall of 1994, the largest district, the Santa Ana Unified School District, had 48,858 students enrolled. Public school enrollment for the period 1989 through 1994 is presented in Table 4.

**TABLE 4**  
**COUNTY OF ORANGE**  
**PUBLIC SCHOOL ENROLLMENT**  
**AS OF OCTOBER 1989 THROUGH 1994**

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
K-8	249,535	261,360	272,102	280,538	285,661	294,369
9-12	<u>110,678</u>	<u>114,219</u>	<u>118,796</u>	<u>119,127</u>	<u>116,603</u>	<u>117,880</u>
Total	<u>360,213</u>	<u>375,579</u>	<u>390,898</u>	<u>399,665</u>	<u>402,264</u>	<u>412,249</u>

*Source: Orange County Department of Education, 1994*

## **Education (Post-Secondary)**

The County has a number of top-rated college-level educational institutions including four Community College districts. The University of California at Irvine, one of the nine campuses of the University of California system, was opened in 1965 on a 1,500-acre site in the City of

Irvine. University of California at Irvine offers undergraduate and graduate programs in a variety of fields. Colleges and universities located within the County are listed in Table 5.

**TABLE 5**  
**COUNTY OF ORANGE PUBLIC AND PRIVATE**  
**INSTITUTIONS OF HIGHER EDUCATION**

<u>Institutions</u>	<u>Location</u>
<u>Colleges and Universities</u>	
California State University at Fullerton	Fullerton
University of California at Irvine	Irvine
Chapman University	Orange
West Coast University	Orange
Western State University College of Law	Fullerton
Southern California College	Costa Mesa
Pacific Christian College	Fullerton
Christ College	Irvine
National University	Irvine
Pepperdine University-Irvine	Irvine
Southern Calif-College of Optometry	Fullerton
University of LaVerne	Fountain Valley
University of Phoenix	Fountain Valley
<u>Community Colleges</u>	
Rancho Santiago College	Santa Ana
Orange Coast College	Costa Mesa
Saddleback College	Mission Viejo
Golden West College	Huntington Beach
Fullerton College	Fullerton
Coastline College	Fountain Valley
Irvine Valley College	Irvine
Cypress College	Cypress

*Source: Focus Orange County, 1995 and Inside Prospects of California*

## **Employment**

Table 6 summarizes the labor force, employment and unemployment figures over the period 1988 through 1994 for the County, the State and the nation as a whole. Table 7 lists the major employers in Orange County.

**TABLE 6**  
**COUNTY OF ORANGE, STATE OF CALIFORNIA AND**  
**UNITED STATES COMPARISON OF**  
**LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT**  
**YEARLY AVERAGE FOR YEARS 1988 THROUGH 1994**

<u>Year and Area</u>	<u>Civilian Labor Force</u>	<u>Resident Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate</u>
1988				
Orange County	1,369,700	1,328,900	40,800	3.0
California	14,133,000	13,385,000	748,000	5.3
United States	121,669,000	114,968,000	6,701,000	5.5
1989				
Orange County	1,409,900	1,368,400	41,500	2.9
California	14,517,400	13,780,000	737,000	5.1
United States	123,869,000	117,342,000	6,528,000	5.3
1990				
Orange County	1,343,900	1,295,400	48,500	3.6
California	15,150,000	14,299,000	850,000	5.6
United States	124,787,000	117,914,000	6,874,000	5.5
1991				
Orange County	1,307,000	1,238,800	68,200	5.2
California	15,131,000	13,989,000	1,142,000	7.5
United States	125,303,000	116,877,000	8,426,000	6.7
1992				
Orange County	1,316,800	1,229,600	87,200	6.6
California	15,307,000	13,913,000	1,393,000	9.1
United States	126,982,000	117,598,000	9,384,000	7.4
1993				
Orange County	1,317,900	1,229,200	88,700	6.7
California	15,295,000	13,885,000	1,410,000	9.2
United States	128,040,000	119,306,000	8,734,000	6.8
1994				
Orange County	1,342,100	1,264,200	77,900	5.8
California	15,471,000	14,141,000	1,330,000	8.6
United States	131,056,000	123,060,000	7,996,000	6.1

*Source: California Employment Development Department, Annual Planning Information, June 1994*

**TABLE 7**  
**COUNTY OF ORANGE MAJOR EMPLOYERS' 1994**

<u>Company</u>	<u>Number of Employees</u>
Disneyland	11,214
University of California, Irvine	9,000
Hughes Aircraft Company, Fullerton	6,800
McDonnell Douglas Aerospace	6,000
Knott's Berry Farm	3,500
Santa Ana Unified School District	3,453
United Parcel Service	3,300
Food 4 Less	3,000
University of California Medical Center	2,800
Hoag Memorial Presbyterian Hospital	2,600
Saint Joseph Hospital	2,300
Fluor Daniel Incorporated	2,226
Baxter Healthcare Corporation - Edwards Division	2,000
Ingram Micro Incorporated	2,000
The Orange County Register	2,000
Pacific Mutual Life Insurance Company	1,988
Disneyland Hotel	1,987
Saint Jude Medical Center	1,800
McGaw Incorporated	1,650
Fairview Development Center	1,600
Children's Hospital of Orange County	1,550
Fountain Valley Regional Hospital and Medical Center	1,500
Pacific Health Systems	1,500
Rockwell Telecommunications	1,500
U.S. Postal Service	1,500
Allergan Incorporated	1,450
Mission Hospital Regional Medical Center	1,400
Vans Incorporated	1,400
Beckman Instruments Incorporated - Fullerton	1,365
ISS Servisystem Incorporated	1,360
Kwikset Corporation	1,350
Bank of America	1,300
Beckman Instruments Incorporated - Brea	1,300
Loral Aeronutronic	1,300
Orange Coast College	1,300
Western Medical Center, Santa Ana	1,300
Anaheim Hilton and Towers	1,200
California State University, Fullerton	1,200
Saddleback Memorial Medical Center	1,200
Western Digital Corporation	1,200

*Source: Focus Orange County, 1995*  
*Inside Prospects of California*

*Note: Table does not include County government workforce, which was 14,860 as of May 1995.*

## Construction Activity

The total valuation of building permits issued in the County exceeded \$2.42 billion in 1994. Table 8 provides a summary of building permit valuations and the number of new dwelling units authorized in the County during the period 1990 through 1994.

**TABLE 8**  
**COUNTY OF ORANGE**  
**BUILDING PERMIT VALUATIONS AND PERMITS ISSUED**  
**FOR YEARS 1990 THROUGH 1994**  
**(in thousands)**

	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
Valuation (\$)					
Residential	\$1,333,562	\$1,070,827	\$1,028,116	\$1,058,243	\$1,732,173
Non-Residential	1,074,080	842,084	655,230	604,644	695,283
Total:	\$2,407,642	\$1,912,911	\$1,683,346	\$1,662,887	\$2,427,456
New Dwelling Units (#)					
Single-Family	3,399	3,604	3,581	4,441	7,758
Multi-Family	8,112	2,969	2,376	1,903	4,872
Total:	11,511	6,573	5,957	6,344	12,630

*Source: Economic Sciences Corporation Annual Summary, 1994*

## Commercial Activity

Between 1989 and 1993 the County experienced a slight growth in taxable sales of 2.1 percent. However, in 1993 retail sales increased by 5.9 percent over the 1992 level. Table 9 summarizes the annual volume of taxable transactions within the County since 1989.

**TABLE 9**  
**COUNTY OF ORANGE**  
**TAXABLE TRANSACTIONS**  
**FOR YEARS 1989 THROUGH 1993**  
**(in thousands)**

<u>Type of Business</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
Retail Stores:					
Apparel Stores	\$ 1,082,141	\$ 1,142,821	\$ 1,152,107	\$ 1,142,096	\$1,165,259
General Merchandise Stores	2,488,975	2,525,652	2,480,034	2,603,430	3,596,498
Drug Stores	324,672	344,561	363,387	412,178	390,406
Specialty Stores	2,567,938	2,661,798	2,676,773	2,626,702	2,742,451
Food Stores	1,191,882	1,237,585	1,356,367	1,447,061	1,184,804
Package Liquor Stores	168,370	166,879	157,247	155,915	142,484
Eating & Drinking Places	2,199,758	2,296,063	2,288,942	2,270,637	2,306,451
Home Furnishing & Appliances	1,018,036	1,011,909	953,486	910,094	915,425
Building Materials, Farm Implements & Second Hand Merchandise	1,656,795	1,519,600	1,329,891	1,265,304	1,276,445
Auto Dealers & Auto Supplies	3,551,050	3,242,102	2,706,822	2,625,789	2,732,226
Service Stations	<u>1,197,932</u>	<u>1,337,463</u>	<u>1,256,014</u>	<u>1,359,988</u>	<u>1,360,261</u>
<b>Retail Stores Total</b>	<b>17,447,549</b>	<b>17,486,433</b>	<b>16,721,070</b>	<b>16,819,194</b>	<b>17,812,710</b>
<b>All Other Outlets</b>	<b><u>9,972,993</u></b>	<b><u>10,280,884</u></b>	<b><u>9,753,862</u></b>	<b><u>9,705,070</u></b>	<b><u>10,024,401</u></b>
<b>Total All Outlets</b>	<b><u>\$27,420,542</u></b>	<b><u>\$27,767,317</u></b>	<b><u>\$26,474,932</u></b>	<b><u>\$26,524,264</u></b>	<b><u>\$27,837,111</u></b>

*Source: State Board of Equalization, Taxable Sales in California Report (August, 1994)*

### **Agriculture**

Although representing a small percentage of the jobs in the County, agriculture remains an important sector of the County's economy. The total gross freight on board (f.o.b.) value of Orange County agricultural products increased by 1 % from \$216,050,700 in 1993 to \$218,260,600 in 1994. The f.o.b. is an indicator of the first point of sale for a farmer and includes cost of production, harvesting and preparation for market. A five-year summary of farm production in the County is provided in Table 10.

**TABLE 10**  
**COUNTY OF ORANGE**  
**GROSS VALUE OF FARM PRODUCTION**  
**FOR YEARS 1990 THROUGH 1994**

	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
<u>Production Type</u>					
Livestock	\$ 2,667,700	\$ 1,815,500	\$ 2,622,600	\$2,389,300	\$1,828,600
Apiculture	226,500	169,300	141,000	138,600	17,300
Field Products	901,000	1,185,700	1,243,700	1,560,100	1,910,700
Nursery	135,111,300	141,626,900	131,395,900	117,404,400	127,988,400
Orchards	69,188,900	96,012,000	66,886,500	46,991,400	40,539,700
Vegetables	<u>48,658,900</u>	<u>55,881,600</u>	<u>49,438,900</u>	<u>47,566,900</u>	<u>45,975,900</u>
	\$256,754,300	\$296,691,000	\$251,728,600	\$216,050,700	\$218,260,600

*Source: 1994 Orange County Department of Agriculture, Annual Orange County Crop Reports*

### **Water Supply**

California experienced its sixth year of drought in 1992. Record rainfall during the month of March 1992 reduced the severity of the drought. Above average rainfalls during November 1992 through January 1993 and January 1994 through April 1995 have further mitigated drought conditions.

Maintaining the County's water supply is the responsibility of the Orange County Water District (OCWD), manager of the County's ground water basin, and the Municipal Water District of Orange County (MWDOC), the County's largest manager of imported water. Half of the County's water is from local sources; the rest is imported. The County's natural underground reservoir is sufficient to carry it through temporary shortfall periods, but local supplies alone cannot sustain the present population.

OCWD was formed by an act of the State Legislature in 1933 to protect and manage the County's ground water basin, and its activities are primarily directed toward water conservation: replenishment of the ground water basin, reclamation of wastewater, and extensive ground water quality monitoring. OCWD has expanded and improved its facilities for recharging the basin, and previously unusable wells with surface contamination are being rehabilitated through water treatment technologies.

MWDOC was formed by public vote in 1951 to manage imported water for Orange County cities and water agencies. As a member of the Metropolitan Water District of Southern California ("Metropolitan"), the southland's water importer, MWDOC provides representation for a service area that includes 70 percent of the County.

MWDOC, is also involved in conservation and the development of new water supplies. Working closely with its member agencies and Metropolitan, the district participates in planning for new sources of water and technical advice on Conservation Credits and Local Projects programs. These programs are a source of funding for conservation activities and water reclamation, desalination, and water quality improvement projects.

Metropolitan has instituted a program of phased rate surcharges, designed to reduce water delivery by 20 to 50 percent. Several Orange County cities have introduced conservation measures to reduce demand for water.

### **Recreation and Tourism**

The County has become a tourist center in Southern California by offering a broad spectrum of recreational opportunities which are enhanced by its mild climate.

Along the County's Pacific Coast shoreline are five state beaches and parks, five Municipal beaches and five County Beaches. There are two small-craft docking facilities in Newport Harbor, a third located at Sunset Beach and a fourth at Dana Point.

Other major recreational and amusement facilities include Disneyland, Knott's Berry Farm and the Spanish Mission of San Juan Capistrano. Also located within the County are the Anaheim Convention Center, the Anaheim Sports Area, Anaheim Stadium and the Art Colony at Laguna Beach with its annual art festival.

Disneyland occupies 230 acres in the City of Anaheim and is one of the major tourist attractions in the nation. Disneyland opened in 1955 with an original investment of \$17,000,000.

The Anaheim Convention Center is located adjacent to Disneyland. It is situated on 50 acres, with 12 acres under one roof. It is the largest convention center in the West. In 1994 the Anaheim Convention Center had a total of 1,023,311 delegates. Table 11 summarizes the number of conventions held at the Center, as well as estimated attendance and delegate expenditures for the period 1986 through 1994.

**TABLE 11**  
**ANAHEIM CONVENTION CENTER ACTIVITY**  
**FOR YEARS 1986 THROUGH 1994**

<u>Year</u>	<u>Conventions</u>	<u>Attendance</u>	<u>Delegate Expenditures</u>
1986	294	925,000	\$ 599,000,000
1987	266	934,503	1,272,793,000
1988	291	1,026,728	1,333,800,000
1989	326	1,062,347	1,124,000,000
1990	360	1,000,176	1,200,000,000
1991	364	1,064,502	1,304,000,000
1992	394	1,029,244	1,400,000,000
1993	356	950,916	1,236,190,800
1994	317	1,023,311	1,330,304,300

*Source: City of Anaheim Area Visitor and Convention Bureau, 1994*

### **Transportation**

Situated in the most heavily populated area in California, the County has easy access to excellent roads, rail, air and sea transportation. The Santa Ana Freeway (Interstate 5) provides direct access to downtown Los Angeles and connects with the San Diego Freeway (Interstate 405) southeast of the City of Santa Ana, providing a direct link with San Diego. The Garden Grove Freeway and Riverside Freeway provide east-west transportation, linking the San Diego Freeway, Santa Ana Freeway and the Newport Freeway. The Newport Freeway provides easy access to the beach communities.

Rail freight service is provided by the Santa Fe Railway and the Southern Pacific Company. Amtrak provides passenger service to San Diego to the south and Los Angeles and Santa Barbara to the north. Bus service is provided by Continental Trailways Bus System and Greyhound Bus Lines. The Orange County Transit District provides bus service between most Orange County cities. Most interstate common carrier truck lines operating in California serve the County.

The John Wayne Airport is located in the County's unincorporated area adjacent to Santa Ana, Costa Mesa, Irvine and Newport Beach. The airport originated as a private landing strip in the 1920's and became a publicly-owned facility in 1939. Regularly scheduled service to San Francisco, Oakland, San Jose, Sacramento, Palm Springs and San Diego is provided by American Airlines and its affiliated commuter airline. Other major airlines, including Alaska, Delta, American West, Continental, Northwest and TWA, fly to major cities throughout the country.

The population growth of the County in the 1960s and 1970s and the increase in business and industrial development dramatically increased the demand for air transportation over the past two decades. In 1970, 871,350 passengers used the airport. In 1994, over 6.7 million passengers were served.

A 22,000-square-foot terminal was built in 1967 to accommodate 40,000 annual passengers. In 1982, through remodeling and additional construction, the facility was increased to 29,000 square feet. In September of 1990, a new 337,900-square-foot terminal building was completed. This two-story terminal building is served by a two-level circulating roadway for curbside passenger service. There are fourteen aircraft gates with enclosed loading bridges, five of which are capable of handling aircraft as large as a Boeing 767. In addition, there are two commuter gates without the enclosed loading bridges. Ports of Los Angeles and Long Beach are both readily accessible via freeways.

### **Natural Disasters; Seismic Activity/Fires**

Natural disasters, including floods and earthquakes, can be experienced in the County. Seismic records spanning the past half century and historic records dating from the 1700s through the early 1900s indicate that the County is a seismically active area. Research indicates that significant tremors are likely to occur in several fault zones during the next 50 to 100 years, including a tremor of 7.0 on the Richter scale within the Newport-Inglewood fault system.

The chance of a significant (Richter 7.0) earthquake occurring is roughly 1-2 percent in any year. For this reason, local building codes require that structures be designed to withstand the expected accelerations for the area without collapsing or suffering severe structural damage.

In June 1992, an earthquake measuring 7.6 on the Richter Scale struck Southern California. The quake was centered in the Landers area of San Bernardino County. That same day a second earthquake measuring 6.7 on the Richter Scale struck Big Bear (a mountain community within San Bernardino County). The damage from both quakes was estimated at \$91.1 million.

On January 17, 1994 an earthquake measuring 6.7 on the Richter Scale struck Southern California. The quake was centered in the Northridge area of Los Angeles County and caused isolated damage in the County. The County declared a local emergency due to the damage and potential for aftershocks which could cause physical injury or further damage to structures previously weakened by the original quake.

On October 26, 1993 a series of fires occurred in Southern California, including the County. It is estimated that in the County, over 300 homes and 18,700 acres of land were burned.

During the months of January, February, March and April 1995, California experienced a series of winter storms which caused considerable damage within the County. The County proclaimed two separate local emergencies because of substantial flooding and the threat to lives and property. The first storm period was from January 4 through February 10, 1995. During this period an estimated \$57 million was incurred in damage in both the private and public sector. Damage from the second storm, which occurred from February 13 through April 4, 1995 was estimated at \$6 million.

### **Secured and Unsecured Taxes**

According to the County's Treasurer-Tax Collector, Tables 12 and 13 illustrate the 10 largest secured and unsecured taxpayers in the County for Fiscal Year 1994-95.

**TABLE 12**

<b><u>Taxpayers</u></b>	<b><u>Secured Taxes Owed</u></b>
1. The Irvine Company	\$ 35,467,869
2. SCE Company	17,520,941
3. Mission Viejo Company	15,905,583
4. Pacific Bell	15,569,124
5. Irvine Apt Communities	11,643,030
6. Walt Disney Productions	8,886,450
7. Rancho Santa Margarita	8,327,713
8. Rockwell International	6,622,739
9. Hughes Aircraft	5,486,107
10. Marriott International	<u>4,722,801</u>
TOTAL	\$130,152,357

**TABLE 13**

<b><u>Taxpayers</u></b>	<b><u>Unsecured Taxes Owed</u></b>
1. KBL COM-Paragon Cable	\$2,716,718
2. American Airlines	1,545,257
3. Times Mirror Cable Television	1,459,388
4. United Airlines	1,369,593
5. Comcast Cable Communicati	1,210,656
6. The Irvine Company	1,177,307
7. Xerox Company USA	741,625
8. COMDISCO Inc.	729,038
9. Silicon Systems	702,139
10. Loral Aerospace Corp.	<u>678,191</u>
TOTAL	\$12,329,912

Source: Orange County Auditor-Controller Department

## Assessed Valuation

The County Assessor assesses all property within the County except utility property, which is assessed by the State Board of Equalization.

Since 1981-82, property in California has been assessed at 100 percent of "full cash value." Under Proposition 13, Article XIII A of the California Constitution, the value may be adjusted annually by not more than two percent to account for inflation. When property is transferred or new construction occurs it is assessed at its then cash value. Due to changes in assessment under Article XIII A of the California Constitution, the County assessment roll no longer purports to be proportional to market value. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS."

California law provides exemptions for owner-occupied residences and business inventories. Under state law, revenues lost to local governments due to this exemption are reimbursed by the State.

The following table shows a history of assessed valuations in the County since Fiscal Year 1989-90. Fiscal Year 1994-95 total assessed value is \$176,974,944,341.

**TABLE 14**  
**COUNTY OF ORANGE**  
**DETAIL OF ASSESSED VALUATION**  
**FISCAL YEARS 1989-90 THROUGH 1994-95**

<u>Fiscal</u>	<u>Secured</u>	<u>Unsecured</u>	<u>Total</u>	<u>% Change</u>
1989-90	\$130,484,245,939	\$11,457,476,971	\$141,941,722,910	
1990-91	146,563,134,928	11,779,062,243	158,342,197,171	11.55 %
1991-92	156,946,653,730	13,204,482,266	170,151,135,996	7.46 %
1992-93	165,318,079,807	13,216,054,195	178,534,134,002	4.93 %
1993-94	166,543,083,303	12,218,374,405	178,761,457,708	0.13 %
1994-95	165,693,754,508	11,281,189,833	176,974,944,341	(1.00 %)

**Note:** Figures in table include incremental value for redevelopment agencies and reflects exclusion of business inventory valuations. Property assessed at taxable full cash value, pursuant to Revenue and Taxation Code Section 135(a).

*Source: Orange County Auditor-Controller Department*

## Ad Valorem Property Taxation

Taxes are levied by the County for each fiscal year on taxable real and personal property which is situated in the County as of the preceding March 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed property and property on which a lien on real property is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the

"unsecured roll." In addition to regular secured taxes, supplemental taxes may also be levied by accelerating property reassessment when a change of ownership or completion of new construction has occurred. Supplemental tax bills representing the taxes on the increases in assessed value are prorated from the date of completion or change in ownership to the end of the fiscal year.

**TABLE 15**  
**COUNTY OF ORANGE**  
**PROPERTY TAX LEVIES AND COLLECTIONS**  
**GENERAL FUND**  
**FISCAL YEARS 1983-84 TO 1993-94**  
**(in thousands)**

<u>Fiscal Year</u>	<u>Secured Tax Levy</u>	<u>Unsecured Tax Levy</u>	<u>Total Tax Levy</u>	<u>Total Tax Collections through June 30</u>	<u>Outstanding Delinquent Taxes</u>	<u>Ratio of Delinquency to Tax Levy</u>
1983-84	\$106,336	\$9,517	\$115,853	\$111,299	\$4,554	3.93%
1984-85	119,780	10,305	130,085	125,513	4,572	3.51%
1985-86	131,352	11,467	142,819	138,121	4,698	3.29%
1986-87	143,664	12,344	156,008	151,184	4,824	3.09%
1987-88	158,160	13,256	171,416	166,856	4,560	2.66%
1988-89	172,607	14,081	186,688	182,160	4,528	2.43%
1989-90	192,755	16,488	209,243	203,061	6,182	2.95%
1990-91	215,137	16,794	231,931	222,904	9,027	3.89%
1991-92	229,982	18,218	248,200	237,443	10,757	4.33%
1992-93	224,726	17,613	242,339	231,105	11,234	4.64%
1993-94	93,092	6,319	99,411	96,221	3,190	3.21%

*Source: Orange County Auditor-Controller Department*

*Note 1: Beginning in Fiscal Year 1992-93, levies & collections decreased due to a shift of property tax revenue from cities, counties & special districts to education.*

*Note 2: Table includes tax levies and collection for General Fund only. It does not include property tax levies and collections for other fund types.*

Property taxes on the secured roll are due in two installments, November 1, and February 1 of the fiscal year, collected by the County Treasurer-Tax Collector in accordance with the California Revenue and Taxation Code. If unpaid, such taxes become delinquent on December 10 and April 10 respectively, and a ten percent penalty accrues with respect to any delinquent payment. If such taxes remain unpaid as of June 30 of the fiscal year in which the tax is levied, the property securing the taxes may only be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of one and one-half percent interest per month from the original June 30th date to the time of redemption. Properties may be redeemed under an installment plan by paying current taxes plus 20% of delinquent taxes for five years. Interest accrues at one and one-half percent per month on the unpaid balance. If taxes are unpaid for a period of five years or more, such properties may thereafter be conveyed to the County Treasurer-Tax Collector as provided by law.

## **Teeter Plan**

In 1949, the California Legislature enacted an alternative method for the distribution of secured property taxes to local agencies. This method, known as the Teeter Plan, is now set forth in Sections 4701-4717 of the California Revenue and Taxation Code. Upon adoption and implementation of this method by a county board of supervisors, local agencies for which the county acts as "bank" and certain other public agencies located in the county receive annually the full amount of their share of property taxes on the secured roll, including delinquent property taxes which have yet to be collected. While the county bears the risk of loss on delinquent taxes which go unpaid, it also benefits from the penalties associated with these delinquent taxes when they are paid. In turn, the Teeter Plan provides participating local agencies with stable cash flow and the elimination of collection risk. The constitutionality of the Teeter Plan was upheld in Corrie v. County of Contra Costa, 110 Cal. App. 2d 210 (1952). The County adopted the Teeter Plan in June 1993.

## **Pension Obligations**

The Orange County Employees' Retirement System ("OCERS") was organized under the County Employees' Retirement Law of 1937 and has been in operation since January 1, 1945. It is a contributory type plan covering substantially all County employees. As of December 31, 1994, there were 19,373 active members and 5,816 pensioners in OCERS. During the year ending December 31, 1994, members contributed approximately \$47.5 million and the County and participating districts (as described below) contributed approximately \$53.6 million.

Those Districts paying in the OCERS, inclusive of the County, are the following:

County	94.17%
Orange County Transit Authority	3.21
Orange County Sanitation District	1.55
University of California, Irvine	0.35
City of San Juan Capistrano	0.21
Transportation Corridor Agency	0.20
Orange County Vector Control District	0.11
Capistrano Water District	0.05
Department of Education	0.04
Orange County Cemetery District	0.04
Orange County Law Library	0.04
Cypress Park & Recreation District	<u>0.03</u>
Total	100.00%

## **Insurance**

Since Fiscal Year 1986-87, the County has been completely self-insured for workers' compensation and general liabilities. The County's self-insurance program operated through two Internal Service Funds, one for workers' compensation and one for general liabilities, administered and controlled by the County Administrative Officer/Risk Management office. the

Risk Management office is staffed by County employees and supplemented by contract consultants and administrators.

An actuarial study is completed at the end of each fiscal year. The study for Fiscal Year 1993-94 estimated that the County was carrying total outstanding liabilities of approximately \$93.4 million as of June 30, 1994. Beginning with Fiscal Year 1986-87, the Workers' Compensation and General Liability budgets included funding to be applied against the total outstanding liabilities. Risk Management has stated a goal of funding ten percent of the total liabilities each year until the outstanding liabilities are 50% funded. As of June 30, 1994, combined reserves are 57% of loss liabilities.

### **Financial Statements**

The County's accounting policies and audited financial statements conform to generally accepted accounting principles and standards for public financial reporting established by the Governmental Accounting Standards Board (GASB).

The County's accounting is based on a modified accrual basis (except for proprietary funds which are on a full accrual basis) with revenues being recorded when available and measurable and expenditures recorded when services or goods are received, with all unpaid liabilities being accrued at year end. All of the financial statements contained herein have been prepared on this modified accrual basis.

The County Auditor-Controller maintains the accounting system and records of account for all County funds. A separate internal audit division provides continuous reports to the Board of Supervisors. Legal compliance audits are conducted by State Controller auditors. With the exception of Fiscal Year 1993-94, an independent certified public accountant has conducted an annual audit of the County's financial statements. All audits are reviewed by the Board of Supervisors.

The information in the following table for Fiscal Years 1989-90 to 1992-93 was prepared from information in the County's Annual Financial Reports for such Fiscal Years, which were prepared by the County Auditor-Controller and audited by independent certified public accountants each year. The information in the table for Fiscal Year 1993-94 was prepared by the County Auditor-Controller, but has not been audited by independent public accountants.

**TABLE 16**  
**COUNTY OF ORANGE**  
**COMBINED STATEMENT OF GENERAL FUND**  
**REVENUES AND EXPENDITURES**  
**FISCAL YEARS 1989-90 TO 1993-94**  
(in thousands)

	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>	<u>1993-94</u> (Unaudited)
<b>REVENUES</b>					
Taxes	\$258,077	\$281,750	\$282,620	\$261,095	\$192,044
Licenses, Permits & Franchises	6,059	5,518	5,922	5,441	5,861
Fines, Forfeitures & Penalties	14,142	17,155	13,744	10,838	12,323
Use of Money and Property	27,247	27,168	43,129	70,571	71,250
Estimated Investment Loss	-	-	-	-	(321,970)
Intergovernmental Revenues	556,283	600,833	703,498	742,762	916,075
Charges for Services	169,089	208,337	212,357	207,540	208,771
Other Revenues	<u>16,381</u>	<u>17,586</u>	<u>20,546</u>	<u>27,372</u>	<u>35,256</u>
<b>TOTAL REVENUES</b>	<b><u>\$1,047,278</u></b>	<b><u>\$1,158,347</u></b>	<b><u>\$1,281,816</u></b>	<b><u>\$1,325,619</u></b>	<b><u>\$1,119,610</u></b>
<b>EXPENDITURES</b>					
Current General Government	\$125,023	\$133,257	\$135,349	\$116,959	\$178,026
Public Protection	393,325	437,448	460,681	465,026	502,269
Health and Sanitation	187,204	192,283	232,616	216,306	225,356
Public Assistance	310,347	368,848	432,076	481,192	513,544
Capital Outlay	13,021	16,499	89,664	19,969	15,709
Debt Service & Fiscal Charges	<u>16,816</u>	<u>10,916</u>	<u>17,733</u>	<u>7,533</u>	<u>37,106</u>
<b>TOTAL EXPENDITURES</b>	<b><u>\$1,045,736</u></b>	<b><u>\$1,159,251</u></b>	<b><u>\$1,368,119</u></b>	<b><u>\$1,306,985</u></b>	<b><u>\$1,472,010</u></b>
Excess (Deficit) of Revenues Over/(Under) Expenditures	1,542	(904)	(86,303)	18,634	(352,400)
Other Financing Sources (Uses)					
Operating Transfers In	500	1,182	5,128	15,815	17,446
Operating Transfers Out	(1,542)	(1,116)	-	(20,469)	(34,297)
Bond Issuance Proceeds	-	-	77,633	-	-
Capital Lease Financing	<u>4,556</u>	<u>-</u>	<u>3,750</u>	<u>1,086</u>	<u>1,294</u>
Excess (Deficit) of Revenues & Other Sources Over (Under) Expenditures and Other Uses	<u>5,056</u>	<u>(838)</u>	<u>208</u>	<u>15,066</u>	<u>(367,957)</u>
Fund Balance July 1	118,618	121,859	118,894	114,424	135,192
Prior Period Adjustment	-	-	(3,791)	-	-
Transfers From (To) Other Funds	<u>(1,815)</u>	<u>(2,127)</u>	<u>(887)</u>	<u>5,702</u>	<u>(1,760)</u>
<b>FUND BALANCES (June 30)</b>	<b><u>\$121,859</u></b>	<b><u>\$118,894</u></b>	<b><u>\$114,424</u></b>	<b><u>\$135,192</u></b>	<b><u>\$(234,525)</u></b>

Sources: Orange County Annual Financial Reports for Fiscal Years 1989-90 through 1992-93, County of Orange General Purpose Financial Statements for the Year Ended June 30, 1994 (Unaudited)

### Short Term Debt

The County has instituted a cash management program for its general fund through the issuance of tax and revenue anticipation notes which are a general obligation of the County. The

notes provide cash flows to meet general fund expenditures during the period prior to the collection of property taxes.

**TABLE 17**  
**COUNTY OF ORANGE**  
**SHORT-TERM BORROWINGS**  
**1990-91 TO 1994-95**

<u>Fiscal Year</u>	<u>Amount</u>
1989-90 .....	41,000,000
1990-91 .....	53,500,000
1991-92 .....	76,000,000
1992-93 .....	110,000,000
1993-94 <sup>(1)</sup> .....	136,000,000
1994-95 <sup>(2)</sup> .....	200,000,000

*Source: Orange County Treasurer*

*Note 1: 1993-94 data excludes \$400,000,000 in County of Orange taxable notes and \$215,000,000 in Teeter Plan taxable notes.*

*Note 2: 1994-95 data is as of June 1, 1995 and excludes \$600,000,000 in County of Orange taxable notes and \$175,000,000 in Teeter Plan tax exempt and taxable notes.*

#### **Outstanding Long Term Debt and Lease Obligations**

As of June 30, 1994 the County had outstanding approximately \$3,195,000 of general obligation bonded indebtedness, all of which is scheduled for retirement on or before Fiscal Year 1997-98. A statement of the County's general obligation bonded indebtedness follows:

**TABLE 18**  
**COUNTY OF ORANGE**  
**STATEMENT OF BONDED INDEBTEDNESS**  
**GENERAL OBLIGATION<sup>(1)</sup>**  
**June 30, 1994**

<u>Description of Bonds</u>	<u>Date of Bonds</u>	<u>Years of Maturity</u>	<u>Rate of Interest</u>	<u>Amount of Original Issue</u>	<u>Bonds Outstanding 6/30/94</u>
County General Obligation Bonds	7/1/57	1958-1997	1.00% to 4.25%	\$7,510,000	\$785,000
County Flood <sup>(2)</sup> Control District Improvement Bonds	2/1/57	1958-1996	0.25% to 4.25%	42,620,000	2,190,000
County Sanitation District No. 12 Bonds	1/1/63	1966-1995	4.50% to 4.75%	1,810,000	220,000
Total Bonded Indebtedness				<u>\$51,940,000</u>	<u>\$3,195,000</u>

*Source: County of Orange General Purpose Statements for the Year Ended June 30, 1994 (Unaudited)*

*Note 1: Table does not include Pension Obligation Bonds (Series A & B) issued on September 1, 1994 in the amount of \$320,040,000.*

*Note 2: The County Flood Control District constitutes a legal entity separate from the County.*

In August 1987, the County issued \$242.4 million of airport revenue bonds to finance construction of new facilities at John Wayne Airport (the "Airport"). In October 1990, the County issued \$6.4 million of certificates of participation to finance a loading bridge and baggage handling project at the Airport. In July 1993, the County issued \$79.7 million in revenue bonds for a partial refunding of \$68.4 million of the 1987 revenue bonds. The total balance of these issues is approximately \$253 million. Substantially all the excess of revenues over current expenses of the Airport are pledged for the repayment of these bonds.

The Orange County Public Facilities Corporation (the "Corporation") has sold certificates of participation to finance the construction of various County facilities. The certificates dated December 30, 1985, July 1, 1986, April 1, 1991, August 1, 1991, and November 15, 1991, are supported by County general fund lease payments and had a principal balance of \$298.4 million

as of June 30, 1994. Annual lease payments average \$30 million through the year 2021. In January 1993, the Corporation sold \$30,000,000 in certificates of participation to finance the County's Master Lease Program (Master Lease 3). The Corporation has also sold \$88.1 million in certificates of participation dated December 1, 1988 for the development of County solid waste facilities. Those lease payments are paid from the Waste Management Enterprise Fund.

Tax allocation bonds totaling \$122.2 million have been issued for Orange County Development Agency projects (including a refunded debt amount of \$33 million), which are supported by tax increment revenues.

The County has formed numerous community facilities districts and assessment districts to finance the construction of public facilities within newly developing areas. The June 30, 1994 balance of district debt is approximately \$713.6 million, which is supported by assessments or special taxes levied within the individual district boundaries. The County anticipates that some of the community facilities districts may issue additional parity debt from time to time within the next twelve months. Further, additional community facilities districts may be organized and issue debt. The County is unable to predict the aggregate amount of community facilities district debt that may be outstanding in the future.

### Capital and Operating Lease Obligations

As of June 30, 1994, the County was the lessee under a number of capital leases in effect with respect to real property and equipment used by the County. The following is a schedule by years of future minimum lease payments required by the County under capital leases, as of June 30, 1994.

**TABLE 19**  
**COUNTY OF ORANGE**  
**CAPITAL LEASE PAYMENTS**  
(in thousands)

<u>Year of Lease</u>	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>	<u>General Long-Term Debt Account Group</u>	<u>Total</u>
FY 1994-95	72	641	1,455	2,168
FY 1995-96	-	641	1,393	2,034
FY 1996-97	-	586	64	650
FY 1997-98	-	532	39	571
FY 1998-99	-	192	39	231
Subsequent years	-	-	15	15
Total minimum lease payments	72	2,592	3,005	5,669
Less: amount representing interest	(3)	(423)	(243)	(669)
Present value of net minimum lease payments	<u>\$69</u>	<u>\$2,169</u>	<u>\$2,762</u>	<u>\$5,000</u>

The majority of the capital lease obligations payable in the General Long-Term Debt Account Group will be financed by the General Fund.

Source: County of Orange General Purpose Financial Statements for the Fiscal Year Ended June 30, 1994 (Unaudited)

The following is a summary of changes in capital lease obligations for the General Long-Term Debt Account Group.

**TABLE 20**  
**COUNTY OF ORANGE**  
**CHANGES IN CAPITAL LEASE OBLIGATIONS FOR THE**  
**GENERAL LONG-TERM DEBT ACCOUNT GROUP**  
(in thousands)

	Lease Principal Outstanding <u>July 1, 1993</u>	Credits/Obligations Incurred <u>During Year</u>	Lease Principal Paid/Reduced <u>During Year</u>	Lease Principal Outstanding <u>June 30, 1994</u>
Total Capital Lease Obligations	\$2,867	\$1,294	\$1,399	\$2,762

*Source: County of Orange General Purpose Financial Statements for the Fiscal Year Ended June 30, 1994 (Unaudited)*

The County is committed under various operating leases primarily for office buildings, office equipment and other equipment. The following is an approximation of future minimum operating lease commitments of the County as of June 30, 1994.

**TABLE 21**  
**COUNTY OF ORANGE**  
**OPERATING LEASE PAYMENTS**  
(in thousands)

	<u>Equipment</u>	<u>Real Property</u>	<u>Total</u>
FY 1994-95	6,256	27,289	33,545
FY 1995-96	1,550	27,554	29,104
FY 1996-97	584	27,033	27,617
FY 1997-98	85	26,578	26,663
FY 1998-99	—	24,816	24,816
Subsequent Years	—	<u>154,235</u>	<u>154,235</u>
<b>TOTAL</b>	<b><u>\$8,475</u></b>	<b><u>\$287,505</u></b>	<b><u>\$295,980</u></b>

Total rent expenditures for operating leases incurred for FY 93-94 were \$31,185

*Source: County of Orange General Purpose Financial Statements for the Fiscal Year Ended June 30, 1994 (Unaudited)*

## **Overlapping Debt and Debt Ratios**

The County contains numerous municipalities, school districts, and special purpose districts, such as water and sanitation districts, which have issued general obligation bonded indebtedness. Set forth in the following table is a direct and overlapping debt report. Some of the issues may be payable from self-supporting enterprises or revenue sources other than property taxation.

**TABLE 22**  
**County of Orange**  
**Computation of Direct and Overlapping Bonded Debt**  
**June 1, 1995**

**1994-95 Assessed Valuation**    \$162,810,614,348 (after deducting \$14,164,329,993 redevelopment incremental valuation; includes unitary utility valuation).

<b><u>DIRECT AND OVERLAPPING BONDED DEBT</u></b>	<b><u>% Applicable</u></b>	<b><u>Debt 6/1/95</u></b>
Orange County General Fund Obligations	100%	\$290,974,000 <sup>(1)</sup>
Orange County Pension Obligations	100	320,040,000
Orange County Transit Authority	100	21,100,000
Orange County Flood Control District	100	1,095,000
Orange County Water District Certificates of Participation	100	207,870,000
Metropolitan Water District	19.580	122,747,999
Municipal Water District of Orange County Water Facilities Corp.	100	88,136,000
Orange County Sanitation Districts Certificates of Participation	100	418,435,000
Community College Districts Certificates of Participation	100	42,008,364
Unified School Districts and Certificates of Participation	100	86,145,115
High School Districts and Certificates of Participation	91.408-100	9,866,460
School Districts and Certificates of Participation	100	11,627,184
Irvine Ranch Water District Certificates of Participation & Improvement Districts	100	368,900,000
Moulton-Niguel Water District Certificates of Participation & Improvement Districts	100	139,424,699
Santa Margarita Water District and Improvement Districts	100	331,845,000
Other Water Districts	100	54,945,000
Community Facilities Districts	100	953,702,868
Other Special Districts	100	19,663,000
Cities	100	58,465,000
City of Anaheim General Fund Obligations	100	261,087,087
Other City General Fund Obligations	100	434,415,473
City and Special District 1915 Act Bonds	100	431,739,851
County 1915 Act Bonds	100	184,258,107
<b>TOTAL GROSS DIRECT AND OVERLAPPING BONDED DEBT</b>		<b>\$4,858,490,207<sup>(2)</sup></b>
Less: Orange County Transit Authority (80% self-supporting)		16,880,000
Orange County Water District Certificates of Participation (100% self-supporting)		207,870,000
Anaheim self-supporting obligations (100% self-supporting)		202,794,487
MWDOC Water Facilities Corporation (100% self-supporting)		88,135,000
Other self-supporting bonds		<u>5,540,000</u>
<b>TOTAL NET DIRECT AND OVERLAPPING BONDED DEBT</b>		<b>\$4,337,270,720</b>

(1) Excludes Recovery Notes to be sold.

(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

**Ratios to Assessed Valuation:**

Direct Debt (\$611,014,000) . . . . .	0.38%
Total Gross Debt . . . . .	2.98%
Total Net Debt . . . . .	2.66%

**STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/94: \$38,495,484**

Source: California Municipal Statistics Inc.

## **APPENDIX B**

**UNAUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED  
JUNE 30, 1994 AND UNAUDITED STATEMENTS OF REVENUES AND  
EXPENDITURES FOR NINE MONTHS ENDED MARCH 31, 1994 AND  
1995**

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**COUNTY OF ORANGE**

**GENERAL PURPOSE  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 1994  
(UNAUDITED)**

**COUNTY OF ORANGE**  
**COMBINED BALANCE SHEET**  
**ALL FUND TYPES AND ACCOUNT GROUPS**  
**JUNE 30, 1994**  
**(UNAUDITED)**  
**(In Thousands)**

	Total (Memorandum Only)	Governmental Fund Types	
		General	Special Revenue
<b>ASSETS AND OTHER DEBITS</b>			
Treasurer's Investment Pool (Notes 1,3)	\$ 20,003,573	\$ 2,585,674	\$ 1,022,397
Estimated Investment Loss (Notes 1,3)	(1,740,878)	(321,970)	(80,946)
Imprest Cash Funds (Notes 1,3)	3,675	1,442	118
Investments Outside Treasurer's Pool (Notes 1,3)	2,324,859	2,996	20,055
Deposits In-Lieu of Cash	55,766	--	--
Receivables	92,608	7,635	4,125
Accounts	323,711	11,717	3,514
Taxes	115,781	26	22,374
Interest/Dividends	24,357	1,276	6,663
Deposits	13,990	184	7,829
Notes (Note 4)	237	31	147
Advances	2,274	--	--
Contributions	(1,319)	(892)	(395)
Allowance for Uncollectibles	377,537	122,892	133,019
Due from Other Funds (Note 14)	126,748	60,288	13,914
Due from Other Governmental Agencies	1,153	882	271
Inventory of Materials and Supplies (Notes 2, 17)	1,044	951	--
Prepaid Costs/Expenses (Note 17)	10,199	--	2,887
Land and Improvements Held for Resale (Note 17)	242,811	--	--
Land (Notes 5, 6, 13)	840,975	--	--
Structures and Improvements (Notes 5, 6, 13)	(56,525)	--	--
Accumulated Depreciation	252,350	--	--
Equipment (Notes 5, 13)	(34,489)	--	--
Accumulated Depreciation	280,184	--	--
Construction in Progress (Note 5)	3,801	--	--
Bond Issuance Costs	160,215	--	--
Collateral Held for Loaned Securities (Note 3)	43,533	--	--
Amount Available in Debt Service Funds	--	--	--
Amount to be Provided for Payment of General Long-Term Debt	406,037	--	--
Total Assets and Other Debits	<u>\$ 23,874,207</u>	<u>\$ 2,473,132</u>	<u>\$ 1,155,972</u>
<b>LIABILITIES, EQUITY AND OTHER CREDITS</b>			
<b>Liabilities</b>			
Accounts Payable	\$ 171,601	\$ 26,235	\$ 7,238
Salaries and Employee Benefits Payable	47,998	39,557	4,418
Retirement Benefits Payable (Note 25)	6,278	--	--
Landfill Site Closure Liability (Note 21)	110,346	--	--
Interest Payable	88,697	26	5,360
Deposits from Others	266,644	666	11,384
Monies Held for Others	4,162,045	--	255
Due to Other Funds (Note 14)	377,537	28,449	101,388
Due to Other Governmental Agencies	31,156	11,690	6,747
Unapportioned Taxes (Note 7)	370,480	--	--
Reverse Repurchase Agreements (Notes 1,3)	12,693,069	2,583,626	594,925
Insurance Claims Payable	105,620	701	--
Deferred Revenue	21,999	16,707	1,767
Notes Payable (Notes 8, 9)	510,547	--	104,836
Bonds Payable (Note 10)	724,223	--	--
Capital Lease Obligations Payable (Note 13)	5,000	--	--
Compensated Absences Payable (Note 2)	55,822	--	--
Taxes Payable	785	--	--
Monies Held as Collateral (Note 3)	160,215	--	--
Estimated Litigation & Claims (Note 24)	150	--	--
Total Liabilities	<u>19,910,212</u>	<u>2,707,657</u>	<u>838,318</u>
<b>Equity and Other Credits</b>			
Investment in General Fixed Assets	1,078,728	--	--
Contributed Capital	84,704	--	--
Retained Earnings (Deficits) - Unreserved (Note 16)	113,940	--	--
Fund Balances	2,517,175	43,702	188,690
Reserved (Note 17)	--	--	--
Unreserved	169,448	(278,227)	128,964
Undesignated	3,963,995	(234,525)	317,654
Total Equity and Other Credits	<u>23,874,207</u>	<u>2,473,132</u>	<u>1,155,972</u>
Total Liabilities, Equity and Other Credits	<u>\$ 23,874,207</u>	<u>\$ 2,473,132</u>	<u>\$ 1,155,972</u>

The notes to the financial statements are an integral part of this statement.

Debt Service	Capital Projects
\$ 20,093	\$ 689,039
(1,583)	(54,844)
--	--
39,833	16,663
--	--
--	340
637	--
259	5,457
--	16,418
--	85
--	59
--	--
--	--
130	7,753
--	2,434
--	--
25	--
--	7,312
--	--
--	--
--	--
--	--
--	--
--	--
--	--
--	--
\$ 59,394	\$ 690,716

\$	3	\$	1,617
--	--	--	--
--	--	--	--
--	--	--	--
107	--	2,251	--
--	--	5,198	--
--	--	--	--
3,247	--	16,145	--
640	--	13	--
--	--	--	--
11,744	--	339,770	--
--	--	--	--
95	--	749	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
<u>15,836</u>		<u>365,743</u>	
--	--	--	--
--	--	--	--
--	--	--	--
43,558	--	24,745	--
--	--	300,228	--
<u>43,558</u>		<u>324,973</u>	
\$ 59,394		\$ 690,716	

- Treasurer's Investment Pool (Notes 1,3)
- Estimated Investment Loss (Notes 1,3)
- Imprest Cash Funds (Notes 1,3)
- Investments Outside Treasurer's Pool (Notes 1,3)
- Deposits In-Lieu of Cash
- Receivables
  - Accounts
  - Taxes
  - Interest/Dividends
  - Deposits
  - Notes (Note 4)
  - Advances
  - Contributions
- Allowance for Uncollectibles
- Due from Other Funds (Note 14)
- Due from Other Governmental Agencies
- Inventory of Materials and Supplies (Notes 2, 17)
- Prepaid Costs/Expenses (Note 17)
- Land and Improvements Held for Resale (Note 17)
- Land (Notes 5, 6, 13)
- Structures and Improvements (Notes 5, 6, 13)
  - Accumulated Depreciation
- Equipment (Notes 5, 13)
  - Accumulated Depreciation
- Construction in Progress (Note 5)
- Bond Issuance Costs
- Collateral Held for Loaned Securities (Note 3)
- Amount Available in Debt Service Funds
- Amount to be Provided for Payment of
  - General Long-Term Debt
- Total Assets and Other Debits

- Liabilities
  - Accounts Payable
  - Salaries and Employee Benefits Payable
  - Retirement Benefits Payable (Note 25)
  - Landfill Site Closure Liability (Note 21)
  - Interest Payable
  - Deposits from Others
  - Monies Held for Others
  - Due to Other Funds (Note 14)
  - Due to Other Governmental Agencies
  - Unapportioned Taxes (Note 7)
  - Reverse Repurchase Agreements (Notes 1,3)
  - Insurance Claims Payable
  - Deferred Revenue
  - Notes Payable (Notes 8, 9)
  - Bonds Payable (Note 10)
  - Capital Lease Obligations Payable (Note 13)
  - Compensated Absences Payable (Note 2)
  - Taxes Payable
  - Monies Held as Collateral (Note 3)
  - Estimated Litigation & Claims (Note 24)
  - Total Liabilities

Equity and Other Credits	
Investment in General Fixed Assets	
Contributed Capital	
Retained Earnings (Deficits) - Unreserved (Note 16)	
Fund Balances	
Reserved (Note 17)	
Unreserved	
Undesignated	
Total Equity and Other Credits	
Total Liabilities, Equity and Other Credits	

**COUNTY OF ORANGE**  
**COMBINED BALANCE SHEET (Cont'd)**  
**ALL FUND TYPES AND ACCOUNT GROUPS**  
**JUNE 30, 1994**  
**(UNAUDITED)**  
**(In Thousands)**

	Proprietary Fund Types		Fiduciary Fund Types
	Enterprise	Internal Service	Trust and Agency
<b>ASSETS AND OTHER DEBITS</b>			
Treasurer's Investment Pool (Notes 1,3)	\$ 474,031	\$ 287,033	\$ 14,925,306
Estimated Investment Loss (Notes 1,3)	(37,734)	(22,619)	(1,221,182)
Imprest Cash Funds (Notes 1,3)	49	1,980	86
Investments Outside Treasurer's Pool (Notes 1,3)	38,322	6,601	2,200,389
Deposits In-Lieu of Cash	28,000	--	27,766
Receivables			
Accounts	8,708	121	71,679
Taxes	--	--	307,843
Interest/Dividends	5,969	3,569	78,127
Deposits	--	--	--
Notes (Note 4)	2	--	5,890
Advances	--	--	--
Contributions	--	--	2,274
Allowance for Uncollectibles	(30)	--	(2)
Due from Other Funds (Note 14)	18,486	3,878	91,379
Due from Other Governmental Agencies	1,758	20	48,334
Inventory of Materials and Supplies (Notes 2, 17)	--	--	--
Prepaid Costs/Expenses (Note 17)	--	68	--
Land and Improvements Held for Resale (Note 17)	--	--	--
Land (Notes 5, 6, 13)	29,457	--	--
Structures and Improvements (Notes 5, 6, 13)	390,101	--	--
Accumulated Depreciation	(56,525)	--	--
Equipment (Notes 5, 13)	19,175	48,183	444
Accumulated Depreciation	(10,299)	(24,190)	--
Construction in Progress (Note 5)	50,232	--	--
Bond Issuance Costs	3,801	--	--
Collateral Held for Loaned Securities (Note 3)	--	--	160,215
Amount Available in Debt Service Funds	--	--	--
Amount to be Provided for Payment of General Long-Term Debt	--	--	--
<b>Total Assets and Other Debits</b>	<b>\$ 963,503</b>	<b>\$ 304,644</b>	<b>\$ 16,698,548</b>
<b>LIABILITIES, EQUITY AND OTHER CREDITS</b>			
<b>Liabilities</b>			
Accounts Payable	\$ 13,953	\$ 2,496	\$ 120,059
Salaries and Employee Benefits Payable	2,396	1,031	596
Retirement Benefits Payable (Note 25)	--	--	6,278
Landfill Site Closure Liability (Note 21)	110,346	--	--
Interest Payable	2,955	2,044	75,954
Deposits from Others	38,689	--	210,707
Monies Held for Others	--	--	4,161,790
Due to Other Funds (Note 14)	1,079	6,334	220,895
Due to Other Governmental Agencies	200	203	11,307
Unapportioned Taxes (Note 7)	--	--	370,480
Reverse Repurchase Agreements (Notes 1,3)	275,650	167,757	8,719,597
Insurance Claims Payable	--	104,913	6
Deferred Revenue	710	1,971	--
Notes Payable (Notes 8, 9)	--	--	405,701
Bonds Payable (Note 10)	320,282	14,256	--
Capital Lease Obligations Payable (Note 13)	69	2,169	--
Compensated Absences Payable (Note 2)	--	--	--
Taxes Payable	--	--	--
Monies Held as Collateral (Note 3)	--	--	160,215
Estimated Litigation & Claims (Note 24)	--	--	--
<b>Total Liabilities</b>	<b>766,329</b>	<b>303,174</b>	<b>14,463,585</b>
<b>Equity and Other Credits</b>			
Investment in General Fixed Assets	--	--	--
Contributed Capital	59,756	24,948	--
Retained Earnings (Deficits) - Unreserved (Note 16)	137,418	(23,478)	--
Fund Balances			
Reserved (Note 17)	--	--	2,216,480
Unreserved	--	--	--
Undesignated	--	--	18,483
<b>Total Equity and Other Credits</b>	<b>197,174</b>	<b>1,470</b>	<b>2,234,963</b>
<b>Total Liabilities, Equity and Other Credits</b>	<b>\$ 963,503</b>	<b>\$ 304,644</b>	<b>\$ 16,698,548</b>

The notes to the financial statements are an integral part of this statement.

Account Groups	
General Fixed Assets	General Long Term Debt
\$ --	\$ --
--	--
--	--
--	--
--	--
--	--
--	--
--	--
--	--
--	--
--	--
--	--
213,354	--
450,874	--
--	--
184,548	--
--	--
229,952	--
--	--
--	--
--	43,533
--	--
--	406,037
<u>\$ 1,078,728</u>	<u>\$ 449,570</u>

\$ --	\$ --
--	--
--	--
--	--
--	--
--	--
--	--
--	356
--	--
--	--
--	--
--	--
--	--
--	10
--	389,685
--	2,762
--	55,822
--	785
--	--
--	150
--	<u>449,570</u>
1,078,728	--
--	--
--	--
--	--
--	--
1,078,728	--
<u>\$ 1,078,728</u>	<u>\$ 449,570</u>

#### ASSETS AND OTHER DEBITS

Treasurer's Investment Pool (Notes 1,3)  
 Estimated Investment Loss (Notes 1,3)  
 Imprest Cash Funds (Notes 1,3)  
 Investments Outside Treasurer's Pool (Notes 1,3)  
 Deposits In-Lieu of Cash  
 Receivables  
   Accounts  
   Taxes  
   Interest/Dividends  
   Deposits  
   Notes (Note 4)  
   Advances  
   Contributions  
 Allowance for Uncollectibles  
 Due from Other Funds (Note 14)  
 Due from Other Governmental Agencies  
 Inventory of Materials and Supplies (Notes 2, 17)  
 Prepaid Costs/Expenses (Note 17)  
 Land and Improvements Held for Resale (Note 17)  
 Land (Notes 5, 6, 13)  
 Structures and Improvements (Notes 5, 6, 13)  
   Accumulated Depreciation  
 Equipment (Notes 5, 13)  
   Accumulated Depreciation  
 Construction in Progress (Note 5)  
 Bond Issuance Costs  
 Collateral Held for Loaned Securities (Note 3)  
 Amount Available in Debt Service Funds  
 Amount to be Provided for Payment of  
   General Long-Term Debt  
   Total Assets and Other Debits

#### LIABILITIES, EQUITY AND OTHER CREDITS

Liabilities  
 Accounts Payable  
 Salaries and Employee Benefits Payable  
 Retirement Benefits Payable (Note 25)  
 Landfill Site Closure Liability (Note 21)  
 Interest Payable  
 Deposits from Others  
 Monies Held for Others  
 Due to Other Funds (Note 14)  
 Due to Other Governmental Agencies  
 Unapportioned Taxes (Note 7)  
 Reverse Repurchase Agreements (Notes 1,3)  
 Insurance Claims Payable  
 Deferred Revenue  
 Notes Payable (Notes 8, 9)  
 Bonds Payable (Note 10)  
 Capital Lease Obligations Payable (Note 13)  
 Compensated Absences Payable (Note 2)  
 Taxes Payable  
 Monies Held as Collateral (Note 3)  
 Estimated Litigation & Claims (Note 24)  
   Total Liabilities  
  
Equity and Other Credits  
 Investment in General Fixed Assets  
 Contributed Capital  
 Retained Earnings (Deficits) - Unreserved (Note 16)  
 Fund Balances  
   Reserved (Note 17)  
   Unreserved  
   Undesignated  
   Total Equity and Other Credits  
 Total Liabilities, Equity and Other Credits

**COUNTY OF ORANGE**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 1994**  
**(UNAUDITED)**  
**(In Thousands)**

	Total (Memorandum Only)	Governmental Fund Types	
		General	Special Revenue
<b>Revenues</b>			
Taxes	\$ 360,830	\$ 192,044	\$ 150,723
Licenses, Permits, and Franchises	12,814	5,861	6,953
Fines, Forfeitures and Penalties	23,130	12,323	3,321
Use of Money and Property	234,748	71,250	105,213
Estimated Investment Loss (Notes 1,3)	(466,179)	(321,970)	(80,946)
Intergovernmental Revenues	1,040,379	916,075	71,071
Charges for Services	235,093	208,771	26,148
Contributions From Property Owners	3,678	--	--
Other Revenues	74,676	35,256	37,979
<b>Total Revenues</b>	<b>1,519,169</b>	<b>1,119,610</b>	<b>320,462</b>
<b>Expenditures</b>			
Current			
General Government	201,311	178,026	18,750
Public Protection	622,240	502,269	119,971
Public Ways and Facilities	38,784	--	36,136
Health and Sanitation	225,356	225,356	--
Public Assistance	557,547	513,544	867
Education	20,991	--	20,991
Recreation and Cultural Services	32,886	--	32,886
Provision for Decline in Land Held for Resale	916	--	916
Capital Outlay	178,082	15,709	35,688
Debt Service			
Principal Retirement	12,354	1,708	20
Interest	96,477	35,398	22,655
<b>Total Expenditures</b>	<b>1,986,944</b>	<b>1,472,010</b>	<b>288,880</b>
<b>Excess (Deficit) of Revenues Over Expenditures</b>	<b>(467,775)</b>	<b>(352,400)</b>	<b>31,582</b>
<b>Other Financing Sources (Uses)</b>			
Operating Transfers In (Note 15)	67,592	17,446	11,179
Operating Transfers Out (Note 15)	(68,131)	(34,297)	(14,001)
Proceeds from Capital Lease Obligations	1,294	1,294	--
Bond Issuance Proceeds (Note 10)	56,795	--	--
Payment to Refunded Bond Escrow Agent (Note 10)	(26,146)	--	--
<b>Excess (Deficit) of Revenues and Other Sources over Expenditures and Other Uses</b>	<b>(436,371)</b>	<b>(367,957)</b>	<b>28,760</b>
<b>Fund Balances - Beginning of Year</b>	<b>910,037</b>	<b>135,192</b>	<b>277,287</b>
<b>Adjustment Due To Reclassification (Note 18)</b>	<b>(1,852)</b>	<b>--</b>	<b>(1,852)</b>
<b>Residual Equity Transfers From Other Funds (Note 15)</b>	<b>14,323</b>	<b>87</b>	<b>13,546</b>
<b>Residual Equity Transfers To Other Funds (Note 15)</b>	<b>(15,994)</b>	<b>(1,847)</b>	<b>(87)</b>
<b>Fund Balances - End of Year</b>	<b>\$ 470,143</b>	<b>\$ (234,525)</b>	<b>\$ 317,654</b>

The notes to the financial statements are an integral part of this statement.

Governmental Fund Types (Cont'd)		Fiduciary Fund Types
Debt Service	Capital Projects	Expendable Trusts
\$ 14,589	\$ 3,474	\$ --
--	--	--
--	7,486	--
5,607	43,334	9,344
(1,583)	(54,844)	(6,836)
174	9,234	43,825
--	174	--
--	3,678	--
--	1,042	399
<u>18,787</u>	<u>13,578</u>	<u>46,732</u>
4,535	--	--
--	--	--
--	--	2,648
--	--	--
--	--	43,136
--	--	--
--	--	--
--	--	--
--	94,464	32,221
9,672	--	954
21,524	13,370	3,530
<u>35,731</u>	<u>107,834</u>	<u>82,489</u>
(16,944)	(94,256)	(35,757)
31,346	6,815	806
(7,094)	(12,739)	--
--	--	--
23,270	33,525	--
(21,646)	(4,500)	--
8,932	(71,155)	(34,951)
34,626	409,498	53,434
--	--	--
--	690	--
--	(14,060)	--
<u>\$ 43,558</u>	<u>\$ 324,973</u>	<u>\$ 18,483</u>

#### Revenues

Taxes  
 Licenses, Permits, and Franchises  
 Fines, Forfeitures and Penalties  
 Use of Money and Property  
 Estimated Investment Loss (Notes 1,3)  
 Intergovernmental Revenues  
 Charges for Services  
 Contributions From Property Owners  
 Other Revenues  
 Total Revenues

#### Expenditures

##### Current

General Government  
 Public Protection  
 Public Ways and Facilities  
 Health and Sanitation  
 Public Assistance  
 Education  
 Recreation and Cultural Services  
 Provision for Decline in Land Held for Resale  
 Capital Outlay  
 Debt Service  
 Principal Retirement  
 Interest  
 Total Expenditures  
 Excess (Deficit) of Revenues  
 Over Expenditures

#### Other Financing Sources (Uses)

Operating Transfers In (Note 15)  
 Operating Transfers Out (Note 15)  
 Proceeds from Capital Lease Obligations  
 Bond Issuance Proceeds (Note 10)  
 Payment to Refunded Bond Escrow Agent (Note 10)  
 Excess (Deficit) of Revenues and Other  
 Sources over Expenditures and Other Uses

#### Fund Balances - Beginning of Year

Adjustment Due To Reclassification (Note 18)  
 Residual Equity Transfers From Other Funds (Note 15)  
 Residual Equity Transfers To Other Funds (Note 15)  
 Fund Balances - End of Year

**COUNTY OF ORANGE**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES/ENCUMBRANCES**  
**AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL ON BUDGETARY BASIS**  
**ALL GOVERNMENTAL FUND TYPES**  
**FOR THE YEAR ENDED JUNE 30, 1994**  
**(UNAUDITED)**  
**(In Thousands)**

	General Fund		
	Revised Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Taxes	\$ 192,035	\$ 192,044	\$ 9
Licenses, Permits, and Franchises	5,592	5,861	269
Fines, Forfeitures and Penalties	12,831	12,323	(508)
Use of Money and Property	62,481	53,253	(9,228)
Estimated Investment Loss	--	(321,970)	(321,970)
Intergovernmental Revenues	980,010	916,075	(63,935)
Charges for Services	245,161	208,771	(36,390)
Other Revenues	39,705	35,256	(4,449)
Total Revenues	1,537,815	1,101,613	(436,202)
<b>Expenditures/Encumbrances</b>			
Current			
General Government	153,559	179,340	(25,781)
Public Protection	541,181	502,347	38,834
Health and Sanitation	248,018	221,682	26,336
Public Assistance	553,350	517,790	35,560
Total Current	1,496,108	1,421,159	74,949
Capital Outlay	56,137	15,813	40,324
Debt Service			
Principal Retirement	11,951	1,606	10,345
Interest	18,988	17,377	1,611
Total Expenditures/Encumbrances	1,583,184	1,455,955	127,229
Excess (Deficit) of Revenues Over Expenditures/Encumbrances	(45,369)	(354,342)	(308,973)
<b>Other Financing Sources (Uses)</b>			
Operating Transfers In	94,625	17,446	(77,179)
Operating Transfers Out	(2,154)	(34,297)	(32,143)
Proceeds from Capital Lease Obligations	--	1,294	1,294
Excess (Deficit) of Revenues and Other Sources Over Expenditures and Other Uses	47,102	(369,899)	(417,001)
<b>Fund Balance - Beginning of Year</b>	85,556	139,226	53,670
Residual Equity Transfers From Other Funds	--	87	87
Residual Equity Transfers To Other Funds	(86,998)	(1,847)	85,151
<b>Fund Balance - End of Year</b>	<u>\$ 45,660</u>	<u>\$ (232,433)</u>	<u>\$ (278,093)</u>

The notes to the financial statements are an integral part of this statement.

Budgeted Special Revenue Funds			
	Revised Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Taxes	\$ 137,767	\$ 150,723	\$ 12,956
Licenses, Permits, and Franchises	3,777	6,952	3,175
Fines, Forfeitures, and Penalties	2,917	3,321	404
Use of Money and Property	27,220	86,694	59,474
Estimated Investment Loss	--	(80,946)	(80,946)
Intergovernmental Revenues	105,163	71,071	(34,092)
Charges for Services	21,460	26,148	4,688
Other Revenues	118,164	37,951	(80,213)
Total Revenues	416,468	301,914	(114,554)
<b>Expenditures/Encumbrances</b>			
Current			
General Government	32,220	18,183	14,037
Public Protection	161,970	118,217	43,753
Public Ways and Facilities	63,265	38,035	25,230
Education	24,353	19,789	4,564
Recreation and Cultural Services	41,968	35,245	6,723
Public Assistance	2,520	795	1,725
Provision for Decline in Land Held for Resale	--	916	(916)
Miscellaneous	318	--	318
Total Current	326,614	231,180	95,434
Capital Outlay	219,579	36,351	183,228
Debt Service			
Principal Retirement	868	5,930	(5,062)
Interest	6,993	(451)	7,444
Total Expenditures/Encumbrances	554,054	273,010	281,044
Excess (Deficit) of Revenues Over Expenditures/Encumbrances	(137,586)	28,904	166,490
<b>Other Financing Sources (Uses)</b>			
Operating Transfers In	110,370	10,337	(100,033)
Operating Transfers Out	(168,826)	(13,726)	155,100
Excess (Deficit) of Revenues and Other Sources Over Expenditures and Other Uses	(196,042)	25,515	221,557
Fund Balance - Beginning of Year	22,821	248,489	225,668
Adjustment Due to Reclassification	(1,852)	(1,852)	--
Residual Equity Transfers From Other Funds	3,315	13,546	10,231
Residual Equity Transfers To Other Funds	(472)	(87)	385
Fund Balance - End of Year	\$ (172,230)	\$ 285,611	\$ 457,841

**COUNTY OF ORANGE**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES/ENCUMBRANCES**  
**AND CHANGES IN FUND BALANCES (Cont'd)**  
**BUDGET AND ACTUAL ON BUDGETARY BASIS**  
**ALL GOVERNMENTAL FUND TYPES**  
**FOR THE YEAR ENDED JUNE 30, 1994**  
**(UNAUDITED)**  
**(In Thousands)**

	Budgeted Debt Service Funds		
	Revised Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Taxes	\$ 12,777	\$ 14,589	\$ 1,812
Use of Money and Property	456	912	456
Estimated Investment Loss	--	(1,583)	(1,583)
Intergovernmental Revenues	174	174	--
Total Revenues	<u>13,407</u>	<u>14,092</u>	<u>685</u>
<b>Expenditures/Encumbrances</b>			
General Government	3,832	2,133	1,699
Debt Service			
Principal Retirement	1,965	1,690	275
Interest	3,758	4,032	(274)
Total Expenditures/Encumbrances	<u>9,555</u>	<u>7,855</u>	<u>1,700</u>
Excess (Deficit) of Revenues Over Expenditures/Encumbrances	3,852	6,237	2,385
<b>Other Financing Sources (Uses)</b>			
Operating Transfers In	--	341	341
Operating Transfers Out	(8,465)	(5,659)	2,806
Bond Issuance Proceeds	18,918	23,270	4,352
Payment to Refunded Bond Escrow Agent	(21,646)	(21,646)	--
Excess (Deficit) of Revenues Over Expenditures/Encumbrances	(7,341)	2,543	9,884
Fund Balance - Beginning of Year	<u>709</u>	<u>6,716</u>	<u>6,007</u>
Fund Balance - End of Year	<u>\$ (6,632)</u>	<u>\$ 9,259</u>	<u>\$ 15,891</u>

The notes to the financial statements are an integral part of this statement.

Budgeted Capital Projects Funds			
	Revised Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Taxes	\$ --	\$ 3,474	\$ 3,474
Fines, Forfeitures and Penalties	7,350	7,485	135
Use of Money and Property	20,002	29,967	9,965
Estimated Investment Loss	--	(54,844)	(54,844)
Intergovernmental Revenues	14,990	9,235	(5,755)
Charges for Services	354	174	(180)
Contributions From Property Owners	34,783	3,678	(31,105)
Other Revenues	12,042	1,042	(11,000)
<b>Total Revenues</b>	<b>89,521</b>	<b>211</b>	<b>(89,310)</b>
<b>Expenditures/Encumbrances</b>			
Capital Outlay	470,674	75,335	395,339
Debt Service			
Principal Retirement	2,740	--	2,740
Interest	6,654	3	6,651
<b>Total Expenditures/Encumbrances</b>	<b>480,068</b>	<b>75,338</b>	<b>404,730</b>
<b>Excess (Deficit) of Revenues Over Expenditures/Encumbrances</b>	<b>(390,547)</b>	<b>(75,127)</b>	<b>315,420</b>
<b>Other Financing Sources (Uses)</b>			
Operating Transfers In	154,737	6,815	(147,922)
Operating Transfers Out	(180,509)	(12,739)	167,770
Bond Issuance Proceeds	57,965	33,525	(24,440)
Payment to Refunded Bond Escrow Agent	(23,418)	(4,500)	18,918
<b>Excess (Deficit) of Revenues and Other Sources Over Expenditures and Other Uses</b>	<b>(381,772)</b>	<b>(52,026)</b>	<b>329,746</b>
<b>Fund Balance - Beginning of Year</b>	<b>80,714</b>	<b>464,397</b>	<b>383,683</b>
<b>Residual Equity Transfer from Other Funds</b>	<b>1,784</b>	<b>690</b>	<b>(1,094)</b>
<b>Residual Equity Transfer to Other Funds</b>	<b>(14,060)</b>	<b>(14,060)</b>	<b>--</b>
<b>Fund Balance - End of Year</b>	<b>\$ (313,334)</b>	<b>\$ 399,001</b>	<b>\$ 712,335</b>

**COUNTY OF ORANGE**  
**COMBINED STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN RETAINED EARNINGS/FUND BALANCE (DEFICITS) AND CONTRIBUTIONS**  
**ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 1994**  
**(UNAUDITED)**  
**(In Thousands)**

	Proprietary Fund Types		Fiduciary Fund Type	Total
	Enterprise	Internal Service	Pension Trust	(Memorandum Only)
Operating Revenues				
Use of Money and Property	\$ 46,965	\$ --	\$ 277,531	\$ 324,496
Estimated Investment Loss	--	--	(12,152)	(12,152)
Licenses, Permits, and Franchises	178	--	--	178
Charges for Services	90,907	36,614	--	127,521
Insurance Premiums	--	51,709	--	51,709
Other Revenues	4,606	10,839	--	15,445
Contributions	--	--	89,747	89,747
Total Operating Revenues	<u>142,656</u>	<u>99,162</u>	<u>355,126</u>	<u>596,944</u>
Operating Expenses				
Salaries and Employee Benefits	18,094	17,746	--	35,840
Employee Benefit Payments and Refunds	--	--	80,433	80,433
Services and Supplies	14,791	21,535	--	36,326
Professional Services	19,635	6,613	--	26,248
Operating Leases	2,646	2,710	--	5,356
Insurance Claims	--	41,688	--	41,688
Administrative Expenses	--	--	3,854	3,854
Other Charges	9,510	187	--	9,697
Waste Disposal Site Closing Costs	11,435	--	--	11,435
Depreciation and Amortization	17,687	5,333	--	23,020
Total Operating Expenses	<u>93,798</u>	<u>95,812</u>	<u>84,287</u>	<u>273,897</u>
Operating Income	<u>48,858</u>	<u>3,350</u>	<u>270,839</u>	<u>323,047</u>
Nonoperating Revenues (Expenses)				
Fines, Forfeitures, and Penalties	35	25	--	60
Intergovernmental Revenues	197	5,376	--	5,573
Interest Revenue	25,857	15,009	--	40,866
Estimated Investment Loss	(37,734)	(22,619)	--	(60,353)
Interest Expense	(29,353)	(6,354)	--	(35,707)
Loss on Disposition of Fixed Assets	(1,261)	(4,325)	--	(5,586)
Other Revenue/Expense - Net	(263)	--	--	(263)
Total Nonoperating Revenues (Expenses)	<u>(42,522)</u>	<u>(12,888)</u>	<u>--</u>	<u>(55,410)</u>
Income Before Operating Transfers	6,336	(9,538)	270,839	267,637
Operating Transfers Out (Note 15)	--	(507)	--	(507)
Net Income	6,336	(10,045)	270,839	267,130
Add Depreciation Related To Assets Acquired with Contributed Capital	1,376	578	--	1,954
Retained Earnings/Fund Balance (Deficits) - Beginning of Year	207,099	(14,011)	1,945,641	2,138,729
Cumulative Effect for Change in Accounting Principle (Note 19)	(77,393)	--	--	(77,393)
Retained Earnings/Fund Balance (Deficits) - End of Year	<u>\$ 137,418</u>	<u>\$ (23,478)</u>	<u>\$ 2,216,480</u>	<u>\$ 2,330,420</u>

The notes to the financial statements are an integral part of this statement.

	Proprietary Fund Types		Fiduciary Fund Type	Total
	Enterprise	Internal Service	Pension Trust	(Memorandum Only)
Contributions:				
County				
Balances - Beginning of Year	\$ 2,113	\$ 31,501	\$ --	\$ 33,614
Cash Deletions - Net	--	(6,997)	--	(6,997)
Fixed Assets - Additions (Deletions) - Net	(12)	297	--	285
Balances - End of Year	2,101	24,801	--	26,902
Federal Aviation Administration				
Balances - Beginning of Year	53,623	--	--	53,623
Cash Additions - Net	5,274	--	--	5,274
Fixed Assets - Deletions - Net	(1,364)	--	--	(1,364)
Balances - End of Year	57,533	--	--	57,533
State of California				
Balances - Beginning of Year	122	33	--	155
Cash Deletions - Net	--	(33)	--	(33)
Balances - End of Year	122	--	--	122
City of San Clemente				
Balances - Beginning of Year	--	--	--	--
Fixed Assets - Additions - Net	--	147	--	147
Balances - End of Year	--	147	--	147
Total Contributions				
Balances - Beginning of Year	55,858	31,534	--	87,392
Cash Additions (Deletions) - Net	5,274	(7,030)	--	(1,756)
Fixed Assets - Additions (Deletions) - Net	(1,376)	444	--	(932)
Balances - End of Year	\$ 59,756	\$ 24,948	\$ --	\$ 84,704

**COUNTY OF ORANGE**  
**COMBINED STATEMENT OF CASH FLOWS**  
**ALL PROPRIETARY FUND TYPES**  
**FOR THE YEAR ENDED JUNE 30, 1994**  
**(UNAUDITED)**  
**(In Thousands)**

	<b>Proprietary Fund Types</b>		<b>Total</b>
	<b>Enterprise</b>	<b>Internal Service</b>	<b>(Memorandum Only)</b>
<b>Cash Flows From Operating Activities:</b>			
Operating Income	\$ 48,858	\$ 3,350	\$ 52,208
<b>Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:</b>			
Depreciation and Amortization	17,687	5,333	23,020
Provision for Waste Disposal Site Closure Costs	11,435	--	11,435
Fines, Forfeitures and Penalties	35	25	60
Other Revenue/(Expense) - Net	(263)	--	(263)
<b>(Increases) Decreases In:</b>			
Deposits In-Lieu of Cash	(3,287)	--	(3,287)
Accounts Receivable	273	(24)	249
Notes Receivable	(2)	--	(2)
Due From Other Funds	2,950	(1,255)	1,695
Due From Other Governmental Agencies	1,943	476	2,419
Prepaid Expenses	--	632	632
<b>Increases (Decreases) In:</b>			
Accounts Payable	619	324	943
Salaries and Benefits Payable	293	202	495
Deposits From Others	8,845	--	8,845
Due to Other Funds	(827)	5,565	4,738
Due to Other Governmental Agencies	(804)	1	(803)
Insurance Claims Payable	--	2,761	2,761
Deferred Revenue	165	(448)	(283)
<b>Total Adjustments</b>	<b>39,062</b>	<b>13,592</b>	<b>52,654</b>
<b>Net Cash Provided By Operating Activities</b>	<b>87,920</b>	<b>16,942</b>	<b>104,862</b>
<b>Cash Flows From Noncapital Financing Activities:</b>			
Operating Transfers Out	--	(507)	(507)
<b>Net Cash Used By Noncapital Financing Activities</b>	<b>\$ --</b>	<b>\$ (507)</b>	<b>\$ (507)</b>

The notes to the financial statements are an integral part of this statement.

	Proprietary Fund Types		Total (Memorandum Only)
	Enterprise	Internal Service	
<b>Cash Flows From Capital and Related Financing Activities:</b>			
Intergovernmental Revenues	\$ 197	\$ 5,376	\$ 5,573
Acquisition and Construction of Capital Assets	(24,148)	(2,701)	(26,849)
Increase (Decrease) in Capital Lease Obligations Payable	(130)	252	122
Principal Paid on Bonds and Certificates of Participation	(3,118)	(4,217)	(7,335)
Interest Paid on Long Term Debt and Other	(32,906)	(5,741)	(38,647)
Increase/(Decrease) in Contributed Capital	5,274	(7,030)	(1,756)
Proceeds From Sale of Fixed Assets	4	249	253
Waste Disposal Site Closing Disbursements	(13,908)	--	(13,908)
<b>Net Cash Used By Capital and Related Financing Activities</b>	<b>(68,735)</b>	<b>(13,812)</b>	<b>(82,547)</b>
<b>Cash Flows From Investing Activities:</b>			
Interest on Investments	24,301	14,539	38,840
Increase in Restricted Investments with Trustee	8,549	1,920	10,469
Increase in Obligations Under Reverse Repurchase Agreements	57,459	16,860	74,319
Estimated Investment Loss	(37,734)	(22,619)	(60,353)
<b>Net Cash Provided By Investing Activities</b>	<b>52,575</b>	<b>10,700</b>	<b>63,275</b>
<b>Net Increases In Cash and Cash Equivalents</b>	<b>71,760</b>	<b>13,323</b>	<b>85,083</b>
Cash and Cash Equivalents - Beginning of Year	364,586	253,071	617,657
Cash and Cash Equivalents - End of Year	<u>\$ 436,346</u>	<u>\$ 266,394</u>	<u>\$ 702,740</u>
<b>Supplemental Disclosure:</b>			
<b>Noncash Transactions:</b>			
Contribution of Capital Assets	\$ --	\$ 1,022	\$ 1,022
Depreciation on Contributed Capital Assets	\$ 1,376	\$ 578	\$ 1,954
Interest Capitalized to Construction in Progress	\$ 4,718	\$ --	\$ 4,718
Loss on Disposition of Fixed Assets	\$ 1,261	\$ 4,325	\$ 5,586
Amortization of Deferred Bond Costs	\$ 634	\$ --	\$ 634



**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 1994**  
**(UNAUDITED)**  
**(Amounts in Thousands)**

**1. COUNTY BANKRUPTCY**

On December 6, 1994, the County of Orange (the "County") and the Orange County Investment Pool (the OCIP) filed for bankruptcy protection under Chapter 9 of Article 11 of the United States Bankruptcy Code following significant losses incurred by the OCIP.

**OCIP Bankruptcy**

The OCIP was an investment pool managed by the County Treasurer-Tax Collector (the "Treasurer"). State law generally requires that all monies of the County and School Districts within the County be held by the OCIP. In addition, the monies of approximately 190 other public agencies such as cities, transportation agencies, and special districts were voluntarily deposited with OCIP.

Most of the assets of the OCIP were held in one custodial bank account. However, in the recordkeeping, two pools and several specific investment funds existed for the benefit of pool participants. Total assets under management prior to bankruptcy totaled approximately \$20.6 billion. Approximately \$13 billion of these assets were financed by borrowings arranged through a variety of commercial banks and investment banks via repurchase and reverse repurchase agreements whereby securities in the OCIP were pledged as collateral for the short-term borrowings. The unencumbered asset balance at the bankruptcy date was approximately \$7.6 billion.

Despite the fact that these deposits were available daily for withdrawal by pool participants, the OCIP invested a large portion of the assets in long-term maturities to enhance returns. The OCIP also purchased a variety of structured derivative instruments such as inverse-floaters, step-up callable notes, and other structured notes. At December 6, 1994, approximately 40% of the OCIP assets consisted of these securities.

On December 1, 1994, the County announced that the OCIP had sustained a \$1.5 billion loss in the value of its assets. In response to the OCIP announcement, many broker-dealers who loaned monies to the OCIP began liquidating the collateral they held in order to avoid large losses on their loans. These liquidations posed a serious threat to pool participants, prompting the Board of Supervisors of the County on December 6, 1994 to file for Chapter 9 bankruptcy.

In order to address the continuing exposure to losses in the OCIP, the Board ordered the orderly liquidation of the OCIP assets and reinvestment in safer securities. When the liquidation of the assets ended on January 20, 1995, the OCIP had suffered a realized loss of approximately \$1.7 billion. The June 30, 1994 financial statements have been adjusted to reflect an estimated investment loss to the portfolio based upon the realized liquidated value of the securities held in the portfolio.

The significant losses sustained by the OCIP generated a large number of claims by the non-county pool participants against the OCIP and the County. Throughout February and March, 1995, the County and non-county pool participants negotiated a settlement of the OCIP bankruptcy. On April 5, 1995, the County filed the proposed settlement with the bankruptcy court. The proposed settlement would pay the pool participants (including the County) their liquidated value in the OCIP and provide a combination of notes and claims to return 100% of the lost investments to the non-county pool participants. Soon thereafter, enough non-county pool participants agreed to the proposed settlement in order to bring it before the bankruptcy court. On May 2, 1995, the bankruptcy court accepted the settlement, which resolved the OCIP bankruptcy.

As previously indicated, the County as a part of the OCIP settlement agreed to a combination of notes and claims with non-county OCIP participants. Recovery notes totaling approximately \$236 million were the first form of commitment by the County. The County agreed to make its "best efforts" to monetize these notes by June 5, 1995. It is anticipated that the County will issue \$275 million of Certificates of Participation in County lease rental payments in June 1995.

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
**JUNE 30, 1994**  
**(UNAUDITED)**  
**(Amounts in Thousands)**

**1. COUNTY BANKRUPTCY (Cont'd)**

The second form of commitment by the County, approximating \$342 million, is secured by proceeds from litigation initiated by the County. The final form of commitment by the County, approximating \$513 million, is subordinate to other county obligations in the County bankruptcy.

**County Bankruptcy**

The County's financial health was closely tied to the OCIP, since most of the County's assets were invested in the OCIP. In addition, the County General Fund was very dependent on investment income from the OCIP to fund its operating budget. The fiscal year 1994-95 general fund operating budget included \$162 million of investment income. With the losses sustained by OCIP and resulting loss of investment income, it is estimated that the County General Fund revenues will face an approximate \$200 million shortfall in fiscal year 1994-95. The County has temporarily addressed this shortfall by obtaining bankruptcy court approval to not make its tax and revenue anticipation note set asides for fiscal year 1994-95.

To address the general fund operating budget shortfall in the future, the County embarked on an aggressive effort to balance the budget for fiscal year 1995-96. This process was focused on preserving the health, safety and welfare of County residents while bringing the budgetary expenditures in line with anticipated revenue sources. On March 30, 1995, the Board of Supervisors authorized budget cuts of approximately \$207 million and established in the budget a contingency reserve of \$19 million. This net reduction in the budget of \$188 million balances the preliminary general fund operating budget for fiscal year 1995-96.

The County is also developing a financial restructuring plan which has as its primary objectives the raising of capital to assist the County in meeting its short-term and long-term obligations as well as returning the losses to pool participants, as discussed above. The restructuring plan is structured to avoid default on the County debt. The restructuring plan to fund the County deficit is comprised of several components which include asset sales, operating the County's solid waste management system to maximize profits, restructuring the Teeter Program to create efficiencies, implementing a 1/2 cent sales tax increase for ten years, issuing long-term debt to repay certain current obligations, and utilizing litigation proceeds to accelerate repayment of remaining claims.

The County financial restructuring plan is dependent upon several elements. Many of these elements are subject to Board of Supervisor and/or voter approval and ultimately bankruptcy court approval. Management cannot currently predict the ultimate outcome of these approvals. If ultimately approved, these elements may be legally challenged. Management further cannot currently predict the ultimate outcome of these challenges should they arise. Without these elements, the County will have to seek other alternatives to address its financial situation. To that end, the County cannot currently predict when it will be able to emerge from Chapter 9 bankruptcy.

The County is currently in default under the terms of a number of its debt obligations. The County has drawn on the reserve accounts for various outstanding certificates of participation financings in order to meet current principal and interest payments. These withdrawals, totaling approximately \$2.9 million, have not been replenished as required by the terms of the documents pursuant to which the certificates of participation were issued. On September 1, 1994, the County issued County of Orange, California Taxable Pension Obligation Bonds, Series 1994A and 1994B (the "Pension Bonds"). The Series 1994B Bonds provide for a put on seven-days notice to the OCIP. The OCIP has defaulted on its obligation to purchase such bonds pursuant to such puts. In connection with the issuance of Series 1994A Pension Bonds, the County entered into an interest rate swap agreement with Credit Suisse Financial Products. The County is currently in default under the terms of the swap agreement and has not paid to Credit Suisse Financial Products the termination payment specified in the swap agreement. In addition, the County is in technical default under the terms of various financing documents as a result of the bankruptcy filing and/or other conditions. To date the County has paid all principal and interest payments on its outstanding notes and bonds when due. No assurances can be given that it will continue to be able to do so.

In addition, the County has expressly reserved in the bankruptcy proceedings any rights it may have to reject leases or to challenge them as designated loans, including County leases with respect to which certificates of participation are outstanding; to challenge the validity of certain taxable tax and revenue anticipation notes issued by the County in 1994; to challenge various security interests and reserve requirements with respect to outstanding County notes; and to challenge, object to, seek or contend various other matters with respect to outstanding County obligations.

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
**JUNE 30, 1994**  
**(UNAUDITED)**  
**(Amounts in Thousands)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of the more significant accounting policies of the County of Orange (see also Note 24 for accounting policies of the Orange County Employees Retirement System, which is included as a pension trust fund within these financial statements):

**A. Reporting Entity/Fiduciary Responsibility**

Orange County is a municipal corporation governed by an elected five member board. As required by generally accepted accounting principles, these financial statements present Orange County (the primary government) and its component units. The component units discussed below are included in the County's reporting entity because of the significance of their operational or financial relationships with the County. Blended component units, although legally separate entities, are, in substance, a part of the government's operations, and data from these units are combined with data of the primary government. The County has no component units which require discrete presentation.

The following entities are considered part of the primary government's operations and are presented as blended in the Combined Financial Statements for the fiscal year ended June 30, 1994: John Wayne Airport, Integrated Waste Management Department; Orange County Civic Center Authority; Orange County-Westminster Civic Center Authority; Orange County Public Facilities Corporation; Orange County Employees' Retirement System; Defined Benefit Retirement Plan; Orange County Housing Authority; Orange County Development Agency; Orange County Job Training Partnership Act Program; Special Assessment District 77; Top of the World Improvement Fund Special Assessment District; Golden Lantern Assessment District 87-1; Irvine Coast Assessment District 88-1; Newport Ridge Assessment District 92-1; Community Facilities Districts 86-1(A), 86-1(88), 86-2, 86-2(A), 86-2(B), 87-1, 87-1(A), 87-2(A), 87-2(A of 1991), 87-3(A), 87-3 (A of 1990), 87-4, 87-4(A of 1990), 87-4(A of 1991), 87-5(A), 87-5(B), 87-5B(A of 1992), 87-5C, 87-5D(A), 87-5E, 87-6, 87-7, 87-8, 87-8 Improvement Area No. 1, 87-9, 88-1, 88-1(A) and 88-2; Orange County Flood Control District; Orange County Harbors, Beaches and Parks County Service Area; Orange County Street Lighting Assessment District; North Tustin Landscaping and Lighting Assessment District; Orange County Sanitation District No. 12; and County Service Areas 4, 4-Zone A, 6, 8, 8-Zone A, 12, 13, 20, 22 and 26. The Orange County Employees' Retirement System and the Defined Benefit Retirement Plan are reported as of December 31, 1993.

The County's Combined Financial Statements do not reflect the operations of the following entities as they are not considered a part of the primary government, since the County does not have the ability to select their governing authorities or management staff, significantly influence operations, approve budgets or budgetary changes or provide funding: Law Library, Santiago Library System, Orange County Transportation Authority, Marine Studies Institute, Transportation Corridor Agencies, school districts, cities and other special districts governed by local boards. These potential component units have governing boards other than the County Board of Supervisors and provide services to residents, generally within the geographic boundaries of the County.

**B. Fund Accounting**

The County uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary, and fiduciary "fund types".

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
**JUNE 30, 1994**  
**(UNAUDITED)**  
**(Amounts in Thousands)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Governmental Fund Types:**

**General Fund** - The general fund is used to account for resources traditionally associated with government and all other resources which are not required legally or by sound financial management to be accounted for in another fund.

**Special Revenue Funds** - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or for major capital projects) that are legally restricted to expenditure for specified purposes.

**Debt Service Funds** - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

**Capital Projects Funds** - Capital projects funds are used to account for financial resources to be used for the acquisition and construction of major capital facilities (other than those financed by proprietary fund types and trust funds).

**Proprietary Fund Types:**

**Enterprise Funds** - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises (where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges), or where periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**Internal Service Funds** - Internal service funds are used to account for the financing of goods or services provided by one County department or agency to other County departments or agencies, or to other governmental entities, on a cost-reimbursement basis.

**Fiduciary Fund Types:**

**Trust and Agency Funds** - Trust and agency funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the County. When these assets are held under the terms of a formal trust agreement, a pension trust, nonexpendable trust or expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not the County is under an obligation to maintain the trust principal. Agency funds are generally used to account for assets that the County holds on behalf of others as their agent.

**Account Groups:**

**General Fixed Assets** - The general fixed assets account group is used to account for all fixed assets of the County, other than those accounted for in proprietary funds or trust funds.

**General Long-Term Debt** - The general long-term debt account group is used to account for the unmatured principal of bonds and notes, and other forms of noncurrent or long-term general obligation debt that are not a specific liability of any proprietary fund or trust fund.

The County maintains 766 individual funds. Certain similar special revenue, debt service, capital projects, enterprise, and trust and agency funds have been grouped on a functional basis in accordance with generally accepted accounting principles (GAAP) to enhance communication and understanding of the financial statements.

**C. Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
**JUNE 30, 1994**  
**(UNAUDITED)**  
**(Amounts in Thousands)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

All proprietary fund types and pension trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The modified accrual basis of accounting is followed for the general, special revenue, debt service, capital projects, expendable trust and agency funds. Revenues and other governmental fund type financial resources increments (i.e., bond issuance proceeds) are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Revenues which are accrued include real and personal property taxes, sales taxes, motor vehicle in-lieu taxes, fines, forfeitures and penalties, interest, federal and state grants and subventions, charges for current services, and the portion of long-term sales contracts and notes and leases receivable that are measurable and available and where collectibility is assured. Revenues which are not considered susceptible to accrual include minor licenses and permits.

Most expenditures are recorded when the related fund liabilities are incurred. However, inventory type items are considered expenditures at the time of use and principal and interest expenditures on bonded debt are recorded in the fiscal year in which they become due for payment. Costs of claims, judgments, compensated employee absences and employer pension contributions are recorded as expenditures during the fiscal year when they would normally be liquidated with expendable available financial resources. The related long-term obligation is recorded in the general long-term debt account group at year end. Commitments such as purchase orders and contracts for materials and services are recorded as encumbrances. Reservations of fund balance are created for encumbrances outstanding.

The accrual basis of accounting is followed for pension trust, internal service and enterprise funds. Generally, revenues are recognized when earned and expenses are recognized when incurred. Grants are recorded as nonoperating revenues when earned, except for those restricted for capital acquisitions, which are recorded as contributions to equity.

**D. Budget Adoption and Revision**

No later than October 2nd of each year, after conducting public hearings concerning the proposed budget, the County Board of Supervisors adopts a budget in accordance with Government Code Sections 29000-29144. The County publishes the results of this initial budgeting process in a separate report, the "Final Budget", which specifies all accounts established within each fund-agency unit (a collection of account numbers necessary to fund a certain division or set of goal-related activities). The governmental funds are comprised of multiple fund-agency units, with the exception of the "Parking Facilities," "Public Library," and "Master Lease Program" special revenue funds and the "Public Facilities Corporation Bonds" debt service fund, which are comprised of individual fund-agency units.

Each year the initial adopted budget is increased for unanticipated revenues, offset by an equal amount of increased appropriations for new reimbursement contracts not in the original budget. Department heads are authorized to approve appropriation transfers within a fund-agency unit. However, appropriation transfers between fund-agency units require approval of the Board of Supervisors. Accordingly, the lowest level of budgetary control exercised by the County's governing body is the fund-agency unit level which represents a Department or an Agency.

Final appropriations reflected in the "Revised Budget" columns of the Combined Statement of Revenues, Expenditures/Encumbrances and Changes in Fund Balances - Budget and Actual on Budgetary Basis - All Governmental Fund Types include the following supplemental appropriations:

General Fund	\$ 67,483
Special Revenue Funds	85,954
Debt Service Funds	21,645
Capital Projects Funds	87,727

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
**JUNE 30, 1994**  
**(UNAUDITED)**  
**(Amounts in Thousands)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

Annual budgets were adopted for the individual funds comprising the following governmental fund type functional groupings (listed by fund type/functional grouping), and for certain individual funds in the "General Obligation, Other Revenue Bonds" debt service functional grouping (listed by fund type/functional grouping/individual fund-agency):

**General**

**Special Revenue**

- Parking Facilities
- Roads, Airport Land Use
- Public Library
- Fire Department
- Flood Control District
- Harbors, Beaches & Parks District
- Service Areas, Lighting & Maintenance Districts
- Redevelopment, Other Environmental Management
- Other Public Protection
- Contingencies, Economic Uncertainty
- Community Services
- Taxable Note Repayment

**Debt Service**

- Redevelopment Agency Bonds
- General Obligation, Other Revenue Bonds
- Bond Redemption
- Flood Control District Bonds (1957) Interest and Sinking Fund
- Sanitation District #12 (1963) Sewer Bond Redemption

**Capital Projects**

- Criminal Justice Facilities
- County, Public Library, & Fire Department
- Flood Control District
- Harbors, Beaches & Parks District
- Redevelopment Agency
- Special Assessment Districts and Service Areas
- Public Facilities Corporation

Excluded from the Combined Statement of Revenues, Expenditures/Encumbrances and Changes in Fund Balances - Budget and Actual on a Budgetary Basis are the following individual funds included within the indicated functional groupings for which annual budgets were neither legally required nor adopted (listed by fund type/functional grouping/individual fund-agency):

**Special Revenue**

- Master Lease Programs
- Master Lease Programs

**Debt Service**

- Public Facilities Corporation Bonds/Master Lease
- Orange County Public Facilities Corporation - Project Funds/Master Lease

**General Obligation, Other Revenue Bonds**

- Orange County-Westminster Civic Center - 1st Issue
- Orange County-Westminster Civic Center - 2nd Issue
- Orange County Civic Center - Debt Service

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
**JUNE 30, 1994**  
**(UNAUDITED)**  
**(Amounts in Thousands)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

Master Lease Programs (special revenue) and Public Facilities Corporation Bonds/Master Lease (debt service), listed above, are the only governmental fund type functional groupings comprised entirely of one or more nonbudgeted fund(s).

**E. Reconciliation of Actual Operations on a Budgetary Basis to Modified Accrual Basis**

The accompanying Combined Statement of Revenues, Expenditures/Encumbrances and Changes in Fund Balances - Budget and Actual on Budgetary Basis presents comparisons of the legally adopted budget (more fully described in Note 2.D) with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of resultant basis, entity, perspective, and timing differences in the corresponding ending fund balances as reported on the combined financial statements for the year ended June 30, 1994 is presented below:

	Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Fund balances, as reported on the Combined Statement of Revenues, Expenditures/Encumbrances and Changes in Fund Balances (budgetary basis)	\$ (232,433)	\$ 285,611	\$ 9,259	\$ 399,001
Adjustments:				
For encumbrances not recognized as expenditures	(2,092)	4,897	-	(78,534)
For nonbudgeted funds (entity differences)	-	19,723	35,305	-
Reclassifications and other adjustments:				
To reclassify excess of revenues and other sources of financial resources over expenditures and other uses of financial resources into financial statement fund types (perspective differences)	-	1,852	-	-
To record excess of revenues and other sources of financial resources over expenditures and other uses of financial resources for prior year unbudgeted funds, budgeted in the current fiscal year (timing differences)	-	267	-	7,452
For excess (deficiency) of revenues and other sources of financial resources over expenditures and other uses of financial resources for prior years (timing differences)	-	5,304	(1,006)	(2,946)
Fund balances, as reported on the Combined Statement of Revenues, Expenditures and Changes in Fund Balances (GAAP basis)	<u>\$ (234,525)</u>	<u>\$ 317,654</u>	<u>\$ 43,558</u>	<u>\$ 324,973</u>

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
**JUNE 30, 1994**  
**(UNAUDITED)**  
**(Amounts in Thousands)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**F. Encumbrances and Appropriations**

Encumbrances, which are commitments related to executory contracts for goods or services, are recorded for budgetary control purposes in the General, Special Revenue and Capital Projects Funds. Encumbrance accounting is utilized to assure effective budgetary control and accountability. Encumbrances outstanding at year-end represent the estimated amount of the expenditures which will ultimately result if the unperformed contracts in process at year-end are completed. Encumbrances at year-end do not constitute GAAP basis expenditures or liabilities. Only unencumbered, unexpended appropriations lapse at year-end and encumbrances outstanding at that time are reported as reservations of fund balance for subsequent year expenditures.

**G. Cash and Investments**

The County maintains a cash and investments pool for the purpose of increasing interest income through pooled investment activities (see Notes 1 and 3).

Investments have been valued at ultimate realized value, except those of the Employees' Retirement System Trust Fund and the Deferred Compensation Agency Fund, which are valued at market (see Notes 25 and 27, respectively).

**H. Inventory of Materials and Supplies**

Inventories consist of expendable materials and supplies held for consumption. Inventories are valued at cost determined on a moving average basis. Applicable fund balances are reserved for amounts equal to the inventories on hand at the end of the fiscal year as these amounts are not available for appropriation and expenditure. The costs of inventory items are recorded as expenditures when issued to user departments/agencies.

**I. Land and Improvements Held for Resale**

These assets, held by the County's development agency, are valued at the lower of cost or estimated net realizable value.

**J. General Fixed Assets**

The General Fixed Assets Account Group records, at cost, the fixed assets which are not accounted for in an enterprise or internal service or similar trust fund. Such assets include land, buildings, building improvements, furniture, fixtures and equipment. Gifts and contributions of fixed assets are recorded at fair market value when received. No depreciation is provided on general fixed assets. Expenditures for streets, roads, bridges, curbs, gutters, sidewalks, flood channels, lighting systems, and similar assets are included in construction in progress but are not transferred or capitalized to other asset categories upon completion, because they are immovable and of value only to the County.

**K. Property, Plant and Equipment of Enterprise and Internal Service Funds**

Fixed assets purchased by the enterprise and internal service funds are capitalized at cost, while contributed assets are recorded at their fair market value when received. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets. Estimated useful lives of property, plant and equipment are as follows:

Structures and Improvements	10 to 45 years
Equipment	2 to 20 years

**L. Self-Insurance**

The County is self-insured for general and automobile liability and workers' compensation claims, and for claims arising under the group health indemnified plans, group salary continuance plan, group dental plan, and unemployment benefits program. Liabilities are accrued based upon estimated future amounts to be paid on known claims and incurred but not reported claims.

The County bankruptcy (see Note 1) has resulted in a greater unfunded liability, but the County does not anticipate that this will affect its ability to remain self-insured in the future.

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
**JUNE 30, 1994**  
**(UNAUDITED)**  
**(Amounts in Thousands)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**M. Property Taxes**

Real and personal property taxes are determined by applying approved rates to properties' assessed values established by the County. Property taxes are levied annually and, when collected, are periodically apportioned to the taxing entities. Property taxes receivable are recorded as of the date levied in agency funds. Property tax revenues are recognized in the fiscal year for which they are levied, provided they are due and collected within the fiscal year and are distributed within 60 days after the fiscal year-end. Property tax revenues are also recognized for unsecured and supplemental property taxes that are due at year-end, and are collected but not distributed within 60 days after the fiscal year end.

Unsecured and supplemental property levies that are due within the fiscal year, but are unpaid at fiscal year-end, are recorded as deferred revenue. The County uses the direct write-off method to recognize uncollectible taxes receivable.

The following are significant dates on the property tax calendar:

	<u>California Revenue &amp; Taxation Code Section</u>
Supplemental assessments are effective on the 1st day of the month following the new construction or ownership change.	75
Property tax lien date is March 1.	2192
Unsecured taxes on the roll as of July 31 are delinquent August 31.	2922
Assessor delivers roll to Auditor-Controller July 1.	616,617
Tax roll is delivered to the Tax Collector on or before the levy date (the 4th Monday in September).	2601
Secured tax payment due dates are: 1st Installment - November 1, and 2nd Installment - February 1.	2605 2606
Secured tax delinquent dates (last day to pay without a penalty) are: 1st Installment - December 10, and 2nd Installment - April 10.	2617 2618
Declaration of default for unpaid taxes occurs June 30.	3436
Power to sell is effective five years after tax default.	3691

**Alternate Method of Tax Apportionment - Teeter Plan**

By a resolution, dated June 29, 1993, the County's Board of Supervisors elected to operate under the Alternate Method of Tax Apportionment. This is an alternative procedure for the distribution of property tax and/or direct assessment levies on the secured roll. This is an accrual method which recognizes taxes receivable as an expendable resource and, subsequently, simplifies the tax apportionment process.

A "Tax Losses Reserve" fund was created to cover losses which may occur in the amount of tax liens as a result of special sales of tax-defaulted property. The "Tax Resources" fund was established as a control for the funds to which delinquent taxes are apportioned and from which current delinquencies will be paid.

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
**JUNE 30, 1994**  
**(UNAUDITED)**  
**(Amounts in Thousands)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

When the choice to apportion taxes using this method was made, the current delinquent abstracts were distributed as if they had been collected. This was done only in the initial year, fiscal year 1993-94, and is referred to as the "Teeter Plan buyout." Thereafter, all delinquent taxes belong to the County. The dollar value of the delinquent abstracts ad valorem taxes was determined, and 95% of the amount was apportioned to the taxing agencies. The remaining 5% was credited to the Tax Losses Reserve Fund, and 100% of delinquent assessments were apportioned to the levying funds.

See Note 1 for discussion of refinancing of "Teeter" notes.

**N. Accounting Reclassifications**

Certain reclassifications have been made to the amounts previously reported to conform to the current year's report presentation.

**O. Compensated Employee Absences**

Compensated absences (vacation, compensatory time off, and sick leave) are accrued as an expense and liability in the proprietary fund types when incurred. In the governmental fund types, only those amounts that are expected to be liquidated with expendable available financial resources are accrued as current year expenditures. Compensated absences that exceed this amount are reported in the General Long-Term Debt Account Group and are not recorded as expenditures. The estimate recorded at June 30, 1994, in the General Long Term Debt Account Group is \$55,822 compared with \$50,308 at June 30, 1993. Most of this amount will be ultimately paid from the General Fund.

As a result of the County's bankruptcy (see Note 1), most of this amount constitutes a pre-petition claim of the County's employees, which will be a part of the eventual settlement with County creditors.

**P. Total Columns on Combined Financial Statements**

The "Total" columns on the accompanying combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not purport to present financial position, results of operations, or cash flows of the County in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation.

**Q. Statement of Cash Flows**

The County presents statements of cash flows in conformity with Governmental Accounting Standards Board Statement No. 9. For purposes of the statement of cash flows, the County considers the "Treasurer's Investment Pool" and "Imprest Cash Funds" as cash and cash equivalents. Cash and cash equivalents are defined as short-term, highly liquid investments which are readily convertible to cash or mature within three months of original purchase. The County's investment in the Treasurer's Investment Pool is available for withdrawal on a daily basis, and is assumed to be a cash equivalent for financial reporting purposes.

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
**JUNE 30, 1994**  
**(UNAUDITED)**  
**(Amounts in Thousands)**

**3. DEPOSITS, INVESTMENTS, AND REVERSE REPURCHASE AGREEMENTS**

Deposits and investments (including repurchase agreements and reverse repurchase agreements) totaled \$20,751,443 as of June 30, 1994. Each fund's portion of this total is reflected in the balance sheet accounts entitled "Treasurer's Investment Pool, Estimated Investment Loss, Imprest Cash Funds, Investments Outside Treasurer's Pool, and Collateral Held for Loaned Securities".

As discussed in Note 1, the Treasurer maintains the Orange County Investment Pool (OCIP) for the County and other non-County entities for the purpose of increasing interest income through pooled investment activities. This pool contains deposits, repurchase agreements, and other investments with an average maturity of two and a half years. Interest is apportioned to individual funds or entities based generally on the average daily balances on deposit with the Treasurer. In addition, longer term investments, deposits and collateral held for loaned securities are held by several of the County's funds.

The County did not violate significant legal or contractual provisions for deposits, investments or reverse repurchase agreements during the year ended June 30, 1994, and no losses occurred during the year due to default by counterparties to these transactions.

**A. Deposits**

Monies which are deposited must be deposited in state or national banks, or state or federal savings and loan associations located within the State. The County is authorized to use demand accounts and certificates of deposit.

Obligations pledged to secure deposits must be delivered to an institution other than the institution in which the deposit is made; however, they may be held by the trust department of the same institution. Written custodial agreements are required that provide, among other things, that the collateral securities are held separate from the assets of the custodial institution. The pledge to secure deposits is administered by the California Superintendent of Banks.

Collateral is required for demand deposits and negotiable certificates of deposit at 110 percent of all deposits not covered by federal deposit insurance if obligations of the United States and its agencies, or obligations of the State or its municipalities, school districts, and district corporations are pledged. Collateral of 150 percent is required if a deposit is secured by first mortgages or first trust deeds upon improved residential real property located in California. All such collateral is considered to be held by the pledging financial institutions' trust departments or agents in the name of the County.

At year-end, the carrying amount of the demand deposits and certificates of deposit was \$202,812. The related bank balances for the demand deposits and certificates of deposit were \$18,529, of which \$347 were insured by FDIC insurance with the remainder collateralized as described above. In addition, the County had imprest cash funds in the amount of \$3,675, of which \$225 was insured by FDIC insurance with the remainder collateralized as described above.

The County also had short-term money market funds and cash equivalents related to OCERS which were uninsured and uncollateralized in the amount of \$175,624.

**B. Investments**

The investment policies are governed by State statutes. In addition, the County has its own written investment policies. Permissible investments include obligations of the U.S. Treasury and U.S. agencies, commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Investors Services, Inc., bankers' acceptances, and repurchase agreements, among others.

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
**JUNE 30, 1994**  
**(UNAUDITED)**  
**(Amounts in Thousands)**

**3. DEPOSITS, INVESTMENTS, AND REVERSE REPURCHASE AGREEMENTS (Cont'd)**

Repurchase agreements can be purchased from entities prescribed in California State Government Code Section 53635.5. Securities underlying a repurchase agreement must have a market value of at least 102 percent of the cost of the repurchase agreement. The securities underlying the agreements must be delivered to the County's custodial banks except in the case of overnight repurchase agreements, in which case delivery of the underlying securities is not required by the County, but the underlying securities must be segregated by an independent financial institution. The County enters into written master repurchase agreements that outline obligations of both the County and the dealers.

The County also enters into written contracts with custodial institutions that outline the basic responsibilities of those institutions for securities underlying the repurchase agreements. These custodial contracts and the County's procedures for monitoring the securities are similar to those for collateral on deposits.

Investments are categorized below to indicate the level of risk assumed at year-end. Category 1 includes investments that are insured or registered, or securities held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments with securities held by the counterparty's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments with securities held by the counterparty, or by its trust department or agent but not in the County's name.

	Category			Carrying	Market
	1	2	3	Amount	Value
Repurchase agreements	\$ 893,171	\$ -	\$ -	\$ 893,171	\$ 893,171
U.S. Government securities, corporate and foreign bonds and debentures	3,445,884	-	-	3,191,817	3,191,817
Negotiable certificates of deposit	878,942	-	-	712,302	712,302
Medium-term corporate notes	1,883,305	-	-	1,688,517	1,688,517
Mortgages/real estate equity	394,014	-	-	384,898	384,898
Equity securities	778,502	-	-	778,502	778,502
Investments with Trustees:					
Repurchase agreements	-	26,701	-	26,701	26,701
U.S. Government securities	-	99,609	-	99,609	99,609
Guaranteed investment contracts	n/a	n/a	n/a	24,449	24,449
Open end funds	n/a	n/a	n/a	3,792	3,792
Venture capital fund	n/a	n/a	n/a	24,838	24,838
Limited partnerships	n/a	n/a	n/a	66,151	66,151
International equity	n/a	n/a	n/a	251,136	251,136
Mutual funds	n/a	n/a	n/a	416,518	416,518
Fixed annuities	n/a	n/a	n/a	43,747	43,747
Guaranteed investment contracts and financing agreements	n/a	n/a	n/a	4,143	4,143
Investments held by broker- dealers under reverse repurchase/securities lending agreements:					
U.S. Government securities	n/a	n/a	n/a	10,843,826	10,843,826
Medium term notes	n/a	n/a	n/a	25,000	25,000
Negotiable certificates of deposit	n/a	n/a	n/a	730,000	730,000
Collateral held for loaned securities (OCERS)	n/a	n/a	n/a	160,215	160,215
Total investments	<u>\$ 8,273,818</u>	<u>\$ 126,310</u>	<u>\$ -</u>	<u>\$ 20,369,332</u>	<u>\$ 20,369,332</u>

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
**JUNE 30, 1994**  
**(UNAUDITED)**  
**(Amounts in Thousands)**

**3. DEPOSITS, INVESTMENTS, AND REVERSE REPURCHASE AGREEMENTS (Cont'd)**

As discussed in Note 1, the June 30, 1994 financial statements have been adjusted to reflect an estimated investment loss to the portfolio based upon the realized liquidated value of the securities held in the portfolio at that date.

**C. Reverse Repurchase Agreements**

The 53600 series of the State of California Government Code permits the County to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. Substantially all reverse repurchase agreements are made with SEC-registered securities brokerages and have maximum terms of 182 days. The proceeds from these agreements may be used to invest in securities permissible under Government Code Section 53635, primarily U.S. Treasury and U.S. agency obligations, commercial paper, and certificates of deposit. The average terms of the securities purchased with the proceeds are approximately 5 years, and the maximum term is 9 years.

The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the County or provide securities or cash of equal value, the County would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest.

The County was not committed to repurchase any securities under yield maintenance agreements on June 30, 1994.

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
**JUNE 30, 1994**  
**(UNAUDITED)**  
**(Amounts in Thousands)**

**4. NOTES RECEIVABLE**

**Deferred Loan Program**

The County processes loans under a Federal Department of Housing and Urban Development (HUD) program which allows individuals to borrow funds free of interest for rehabilitation of real property. Loans made to qualifying individuals are collateralized by the property rehabilitated. Repayment occurs upon a change of property ownership or earlier at the borrower's option. The committed funds are disbursed periodically upon satisfaction of certain lending requirements and, when disbursed, are reflected as notes receivable in the Deferred Loan Program Fund, an agency fund. The notes are not expected to be repaid within one year. Funds collected upon repayment are used to issue new loans. Should the program cease to exist, all collections on future notes would be due and payable to HUD.

**Formal Assurance Loan Program**

This program allows individuals to borrow funds at an interest rate of 3% for the rehabilitation of real property. Loans made to qualifying individuals are secured by the property rehabilitated. Repayment of the loans occurs on a monthly basis.

At June 30, 1994, the amounts committed and disbursed are as follows:

	<u>Deferred Loan Program</u>	<u>Formal Assurance Loan Program</u>	<u>Total</u>
Loan commitments	\$ 4,438	\$ 1,553	\$ 5,991
Less undisbursed amounts	<u>97</u>	<u>79</u>	<u>176</u>
Notes receivable	<u>\$ 4,341</u>	<u>\$ 1,474</u>	<u>\$ 5,815</u>

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
**JUNE 30, 1994**  
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**5. CHANGES IN GENERAL FIXED ASSETS**

The Schedule of Changes in General Fixed Assets includes general fixed assets of the County other than those accounted for in proprietary funds or similar trust funds. Additions, retirements and transfers in the County's general fixed assets during the fiscal year were as follows:

	Balance July 1, 1993	Transfers and Additions	Transfers and Retirements	Balance June 30, 1994
Land	\$ 204,566	\$ 9,636	\$ 848	\$ 213,354
Structures and Improvements	376,955	103,543	29,624	450,874
Equipment	191,310	87,189	93,951	184,548
Construction in Progress	594,862	120,511	485,421	229,952
<b>Total</b>	<b>\$ 1,367,693</b>	<b>\$ 320,879</b>	<b>\$ 609,844</b>	<b>\$ 1,078,728</b>

Construction in progress is composed of the following:

<u>Project Title</u>	<u>Project Authorization</u>	<u>Expenditures to Date</u>	<u>Committed</u>	<u>Remaining Authorization</u>
Civic Center Development Report & Design	\$ 6,936	\$ 1,704	\$ 107	\$ 5,125
GSA-New Data Center*	5,738	1,316	7	4,415
Sheriff-Tent Replacement-Musick	6,796	911	9	5,876
GSA-New Communications Center	16,210	1,017	19	15,174
HCA Remodel 1719/1725 W 17th	9,019	4,082	2,061	2,876
Probation Institution Expansion-Devel.-Study*	8,932	581	85	8,266
Manchester Parking	7,072	18	-	7,054
Sheriff-South County Substation*	7,700	2	-	7,698
Theo Lacy Expansion	185,546	60,708	189	124,649
Superior/Juvenile Crt-New Facilities Design**	10,072	5,662	25	4,385
Muni/South-5 Court Add-Design**	6,213	1,406	60	4,747
New Criminal Court Facility**	5,225	3,811	137	1,277
Juvenile Justice Center Interior Furnishings	6,803	995	-	5,808
Cabot Rd-Crown Valley/Animal Shelter	6,684	2,344	266	4,074
Seismic Retrofit (Building)	6,535	232	493	5,810
Juvenile Justice Courts	47,013	43,271	-	3,742
Juvenile Justice Intake Center	11,276	6,209	-	5,067
Parking Structure #2	10,353	8,168	-	2,185
Parking Structure #1	9,056	8,843	-	213
GSA Data Center	17,631	9,461	-	8,170
Loma Ridge Communications Center	12,682	6,952	49	5,681
Sunset Harbor-Phase II	13,849	357	-	13,492
Fairview/Talbert Grassland Hab	5,194	1,285	5	3,904
Elementary School	6,800	4,388	-	2,412
All Other Projects***	149,478	55,229	1,989	91,620
<b>Total</b>	<b>\$ 578,813</b>	<b>\$ 229,952</b>	<b>\$ 5,501</b>	<b>\$ 343,720</b>

\* Project suspended due to bankruptcy (See Note 1.)

\*\* Project cancelled due to bankruptcy (See Note 1.)

\*\*\* "All Other Projects" represents projects with individual appropriations of less than \$5 million.

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
**JUNE 30, 1994**  
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**6. COUNTY PROPERTY ON LEASE TO OTHERS**

The County's General Fund, Special Revenue Funds and Enterprise Funds lease real property to others under noncancellable operating lease agreements for recreational boating, retail, restaurant, and other commercial operations. At June 30, 1994, the balances of real property on lease to others consisted of the following:

	General Fund	Special Revenue Funds	Enterprise Funds
Land	\$ 313	\$ 4,573	\$ 1,905
Structures and Improvements	1,072	5,230	51,590
	1,385	9,803	53,495
Less: accumulated depreciation	—	—	(4,204)
Total	<u>\$ 1,385</u>	<u>\$ 9,803</u>	<u>\$ 49,291</u>

Future minimum rentals to be received under these noncancellable operating leases as of June 30, 1994, are as follows:

	General Fund	Special Revenue Funds	Enterprise Funds
FY 1994-95	\$ 598	\$ 3,604	\$ 25,769
FY 1995-96	600	3,592	21,054
FY 1996-97	599	3,485	19,298
FY 1997-98	250	3,034	19,278
FY 1998-99	162	2,990	19,253
Subsequent years	1,398	33,346	114,936
Total future minimum rentals	<u>\$ 3,607</u>	<u>\$ 50,051</u>	<u>\$ 219,588</u>

Total contingent rentals, which arise primarily from a percentage of lessee's gross revenues, amounted to approximately \$265 (General Fund), \$3,377 (Special Revenue Funds), and \$14,979 (Enterprise Funds) for the year ended June 30, 1994.

**7. UNAPPORTIONED TAXES**

The County records collections of significant disputed property taxes within the unapportioned taxes liability category in its financial statements. Upon final disposition of the disputes, the amounts are either refunded to taxpayers or distributed to the County or other taxing entities. At June 30, 1994, approximately \$52.1 million of disputed property taxes and interest earnings were included in unapportioned taxes.

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
**JUNE 30, 1994**  
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**8. NOTES PAYABLE**

The Orange County Housing Authority is obligated for the repayment of several notes, primarily from the purchase of real property. The total original principal amount was \$351 with an outstanding balance of \$10 at June 30, 1994, as reflected in the General Long-Term Debt Account Group. The outstanding balance at June 30, 1993, was \$159.

Annual principal requirements to maturity are as follows:

<u>Fiscal Year(s) Ending June 30</u>	<u>Amount</u>
1995-1999	\$ 8
2000	2
Total	<u>\$ 10</u>

**9. SHORT-TERM NOTES PAYABLE**

During the year ended June 30, 1994, the County of Orange issued non-taxable tax and revenue anticipation notes in the amount of \$136,000. Related interest expense as of June 30, 1994 was \$4,069. The notes matured June 30, 1994.

The monies provided by these notes were used for general fund expenditures and capital expenditures, and to discharge other obligations or indebtedness of the County. The interest and principal thereon was paid from funds received by the County during fiscal year 1993-94.

The County also issued taxable tax and revenue anticipation notes in the amount of \$400,000. The proceeds from these notes were used to make investments in the Orange County Investment Pool (OCIP) to generate additional investment income for the County. Related interest expense for the year ended June 30, 1994 was \$16,288. The notes matured July 1, 1994.

**10. LONG-TERM OBLIGATIONS**

**General Obligation Bonds Payable**

General obligation bonds are not collateralized. Revenue for retirement of these bonds is provided from ad valorem taxes on property within the district of the governmental unit issuing the bonds.

The amount of bonded indebtedness the County can incur is limited by law to 1.25 percent of the last equalized assessment property tax roll. At June 30, 1994, the statutory limit was approximately \$2.2 billion.

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
**JUNE 30, 1994**  
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**10 LONG-TERM OBLIGATIONS (Cont'd)**

General obligation bonds outstanding and related activity for the year ended June 30, 1994 were as follows:

<u>Description</u>	<u>Balance</u> <u>July 1, 1993</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 1994</u>
<b><u>County Improvement Serial Bonds:</u></b>			
Date Issued: July 1, 1957			
Interest Rates: 1.00% to 4.25%			
Original Amount: \$7,510			
Maturing in installments through July 1, 1997	\$ 980	\$ (195)	\$ 785
<b><u>County Flood Control District Improvement Bonds:</u></b>			
Date Issued: February 1, 1957			
Interest Rates: 0.25% to 4.25%			
Original amount: \$42,620			
Maturing in installments through February 1, 1996	3,285	(1,095)	2,190
<b><u>County Sanitation District No. 12 Sewer Bonds:</u></b>			
Date Issued: January 1, 1963			
Interest Rate: 4.50% to 4.75%			
Original amount: \$1,810			
Maturing in installments through July 1, 1995	<u>320</u>	<u>(100)</u>	<u>220</u>
	<u>\$ 4,585</u>	<u>\$ (1,390)</u>	<u>\$ 3,195</u>

**Revenue Bonds Payable, Certificates of Participation, and Master Lease Agreements**

Orange County Public Facilities Corporation (OCPFC) revenue bonds are primarily secured by facilities constructed with the bond proceeds. The outstanding OCPFC balance includes \$14,768 in the Telephone Internal Service Fund (which includes accrued interest of \$512) and \$83,801 in the Waste Management Enterprise Fund (which includes accrued interest of \$535). Revenue for interest payments and bond retirements is serviced by the Telephone Internal Service Fund and the Waste Management Enterprise Fund; the remainder is serviced by revenues generated from lease payments made by the General Fund on the constructed facilities. The General Fund is reimbursed for a portion of these lease payments by other County funds.

Airport Enterprise Fund revenue bonds are secured and serviced primarily by a pledge of the net revenues of the Airport and its rights to receive net revenues.

Orange County Financing Authority and the Orange County Development Agency (OCDA) revenue bonds are secured and serviced by a pledge of OCDA's allocation of property taxes derived from the total incremental taxable value of properties within the redevelopment areas.

Master Lease Equipment Obligations are serviced by base rental payments on acquired equipment. The majority of the base rental payments are financed by the General Fund and the Internal Service Funds.

In prior years, the County has advance refunded the 1987 and 1989 Certificates of Participation and the 1989 Tax Allocation Bonds which are considered defeased and the long-term debt liability has been removed from the General Long-Term Debt Account Group. At June 30, 1994, \$125,381 of defeased debt remained outstanding.

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
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**10. LONG-TERM OBLIGATIONS (Cont'd)**

During fiscal year 1993/94, the September 1, 1987 Orange County Development Agency Tax Allocation Revenue Bonds were advance refunded. The net proceeds from the advance refunding were used to purchase State and Local Government Series securities (SLGS). Those securities were deposited with an escrow agent to provide for all future debt service payments on the refunded debt issuance. As a result, the refunded debt issuance is considered defeased, as described below.

**Orange County Development Agency**

In August 1993, the Orange County Development Agency issued \$57,965 in tax allocation revenue bonds, with interest rates ranging from 3.250% to 6.125%, to advance refund tax allocation bonds ranging from 6.20% to 7.60%, originally issued September 1, 1987, and to fund ongoing redevelopment projects. The refunding tax allocation bonds reduced the debt service payments by \$1,716 and produced an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$208. Additionally, the annual letter of credit fee was eliminated by the refunding, increasing the present value savings to \$1,466. The outstanding balance of the refunded bonds at June 30, 1994 was \$18,770.

**Airport Enterprise Fund**

In July 1993, the Airport Enterprise Fund issued \$79,755 in revenue bonds, with interest rates ranging from 3.00% to 5.50%, to partially advance refund revenue bonds ranging from 6.00% to 8.12% which were originally issued on July 23, 1987. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$11,322. In accordance with Governmental Accounting Standards Board Statement 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities," this difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2018 using the effective-interest method. The Airport completed the advance refunding to reduce its total debt service payments over the next 25 years by \$11,700 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$6,100.

Revenue bonds and certificates outstanding and related activity for the year ended June 30, 1994, were as follows:

<u>Description</u>	<u>Balance July 1, 1993</u>	<u>Arbitrage, Issuances and Discount Amortization</u>	<u>Deferred Refunding, Assignments and Retirements</u>	<u>Balance June 30, 1994</u>
<b>Orange County Public Facilities</b>				
<b><u>Corporation Revenue Bonds:</u></b>				
Date Issued: July 1, 1986				
Interest Rates: 6.75% to 7.50%				
Original amount: \$36,965				
Maturing in installments through July 1, 2001.	\$ 20,838	\$ 22	\$ (4,595)	\$ 16,265
<b>Airport Enterprise Fund</b>				
<b><u>Revenue Bonds:</u></b>				
Date Issued: July 23, 1987, \$68,440 refunded on July 1, 1993.				
Interest Rates: 6.00% to 8.12%				
Original amount: \$233,676				
Maturing in installments through July 1, 2018.	232,979	2,416	(69,440)	165,955

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
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**10. LONG-TERM OBLIGATIONS (Cont'd)**

<u>Description</u>	<u>Balance July 1, 1993</u>	<u>Arbitrage, Issuances and Discount Amortization</u>	<u>Deferred Refunding, Assignments and Retirements</u>	<u>Balance June 30, 1994</u>
<b>Orange County Development Agency Revenue Bonds:</b>				
Date Issued: September 1, 1987				
Interest Rates: 6.20% to 7.60%				
Original amount: \$20,000				
Maturing in installments through September 1, 2017.	19,045	-	(19,045)	-
<b>Master Lease Schedule No. 1, 1988 Equipment Project Purchaser Certificates:</b>				
Date Issued: September 1, 1988				
Interest Rates: 7.20%				
Original amount: \$13,475				
Maturing in installments through September 1, 1995	4,526	-	(1,975)	2,551
<b>Orange County Public Facilities Corporation Revenue Bonds:</b>				
Date Issued: December 1, 1988				
Interest Rates: 6.80% to 7.875%				
Original amount: \$88,146				
Maturing in installments through December 1, 2013.	85,009	12	(1,755)	83,266
<b>Airport Enterprise Fund Subordinated Airport Revenue Certificates of Participation:</b>				
Date Issued: October 1, 1990				
Interest Rates: 6.50% to 7.80%				
Original amount: \$6,420				
Maturing in installments through July 1, 2000.	5,460	-	(525)	4,935
<b>Master Lease Schedule No. 2, 1990 Equipment Project Purchaser Certificates:</b>				
Date Issued: January 3, 1991				
Interest Rates: 7.00%				
Original amount: \$16,475				
Maturing in installments through September 1, 2000.	13,558	-	(1,500)	12,058
<b>Orange County Public Facilities Corporation Revenue Bonds:</b>				
Date Issued: April 1, 1991				
Interest Rates: 5.60% to 6.50%				
Original amount: \$31,380				
Maturing in installments through June 1, 2021.	30,860	-	(440)	30,420
<b>Orange County Public Facilities Corporation Revenue Bonds:</b>				
Date Issued: August 1, 1991 to refund prior December 22, 1987 bond issue				
Interest Rates: 5.40% to 7.05%				
Original amount: \$33,579				
Maturing in installments through December 1, 2018.	30,934	-	(1,290)	29,644

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
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**10. LONG-TERM OBLIGATIONS (Cont'd)**

<u>Description</u>	<u>Balance July 1, 1993</u>	<u>Arbitrage, Issuances and Discount Amortization</u>	<u>Deferred Refunding, Assignments and Retirements</u>	<u>Balance June 30, 1994</u>
<b>Orange County Public Facilities Corporation Revenue Bonds:</b>				
Date Issued: November 15, 1991				
Interest Rates: 4.90% to 7.30%				
Original amount: \$86,035				
Maturing in installments through August 1, 2021.	85,345	-	(1,145)	84,200
<b>Orange County Financing Authority Revenue Bonds Series A:</b>				
Date Issued: June 1, 1992 to refund prior June 1, 1989				
Orange County Development Agency bond issue				
Interest Rates: 4.50% to 6.55%				
Original amount: \$28,082				
Maturing in installments from September 1, 1994 through September 1, 2022	28,082	-	-	28,082
<b>Orange County Public Facilities Corporation Revenue Bonds:</b>				
Date Issued: June 1, 1992 and delivered July 7, 1992				
to refund prior April 1, 1989 bond issue				
Interest Rates: 4.70% to 6.375%				
Original amount: \$102,735				
Maturing in installments through June 1, 2019.	100,980	-	(1,805)	99,175
<b>Orange County Financing Authority Revenue Bonds Series B:</b>				
Date Issued: July 1, 1992				
Interest Rates: 5.10% to 7.40%				
Original amount: \$3,185				
Maturing in installments through September 1, 2000.	3,185	-	(300)	2,885
<b>Orange County Public Facilities Corporation Revenue Bonds Master Lease Program:</b>				
Date Issued: February 1, 1993				
Interest Rates: 3.40% to 5.50%				
Original amount: \$24,780				
Maturing in installments from September 1, 1994 through September 1, 2003	24,780	-	-	24,780
<b>Airport Enterprise Fund Revenue Bonds:</b>				
Date issued: July 1, 1993 to refund \$68,440 of the				
1987 Airport Revenue bond issue				
Interest rate: 3.00% to 5.50%				
Original amount: \$77,022				
Maturing in installments through July 1, 2018.	-	77,105	(10,979)	66,126

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
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**10. LONG-TERM OBLIGATIONS (Cont'd)**

<u>Description</u>	<u>Balance July 1, 1993</u>	<u>Arbitrage, Issuances and Discount Amortization</u>	<u>Deferred Refunding, Assignments and Retirements</u>	<u>Balance June 30, 1994</u>
<b>Orange County Development Agency Revenue Bonds:</b>				
Date issued: August 1, 1993 to refund prior September 1, 1987 bond issue				
Interest rate: 3.250% to 6.125%				
Original amount: \$57,965				
Maturing in installments through September 1, 2023.	-	57,965	-	57,965
Arbitrage Rebate (See Note 11)	3,172	(2,387)	-	785
Less Master Lease Assignments	-	-	(528)	(528)
<b>Total</b>	<u>\$ 688,753</u>	<u>\$ 135,133</u>	<u>\$ (115,322)</u>	<u>\$ 708,564</u>

**Demand Obligations Payable**

The General Long-Term Debt Account Group includes \$13,900 of demand obligations indebtedness; revenue for related debt retirements and interest payments is provided by lease payments from the General Fund.

Demand obligations outstanding and related activity for the year ended June 30, 1994, were as follows:

<u>Description</u>	<u>Balance July 1, 1993</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Balance June 30, 1994</u>
<b>Orange County Public Facilities Corporation 1985 Refunding Certificates of Participation:</b>				
Date Issued: December 30, 1985				
Interest Rate: 12.00% Maximum Variable				
Original amount: \$33,851				
Maturing in installments through December 1, 2015.	<u>\$ 14,100</u>	<u>\$ -</u>	<u>\$ (200)</u>	<u>\$ 13,900</u>

The 1985 certificates were issued by OCPFC to provide funds to refund, on December 1, 1987 (the "cross-over date"), 1984 certificates which had also been issued by OCPFC. The 1984 certificates were issued to finance the rehabilitation of two three-story office buildings located in Santa Ana, California, the expansion and remodeling of an existing courthouse located in Newport Beach, California, and the acquisition and improvement of a refuse disposal site and access road located within the County. One of the office buildings in Santa Ana was not rehabilitated, resulting in a prepayment of \$2,675.

Some of the proceeds from the Orange County Public Facilities Corporation Revenue Bonds dated December 1, 1988 were used to refund \$16,640 of the 1985 Certificates designated for the acquisition and improvement of the refuse disposal site and access road.

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
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**10. LONG-TERM OBLIGATIONS (Cont'd)**

Proceeds of the 1985 issuance, along with accumulated interest earnings, were used to retire the 1984 certificates on December 1, 1987. Each 1985 certificate was secured, prior to the cross-over date, by a pledge of and lien upon the escrow fund established to retire the related issue of 1984 certificates, and is now secured by a pledge of payments under the related 1985 lease agreements.

The 1985 certificates shall be purchased upon demand of the holder at a price equal to the principal amount thereof plus accrued interest, upon no more than seven days' notice and delivery to the trustee or paying agent. The remarketing agent has agreed to make a good faith attempt to remarket any repurchased bonds at a price equal to the principal amount thereof plus any accrued interest to the purchase date.

The 1985 certificates are secured by irrevocable letters of credit issued by the Dai-Ichi Kangyo Bank, Limited. The letters of credit permit the trustee to draw up to an amount sufficient to pay principal of the related certificates when due, to pay the purchase price of the related certificates that are required to be purchased pursuant to "puts" or are subject to mandatory purchase and that are not remarketed, and to pay not less than 62 days of accrued interest. As of June 30, 1994, there were no outstanding draws on the letters of credit.

OCPFC demand bonds are reported as long-term debt because they met all four conditions for such treatment specified in Governmental Accounting Standards Board Interpretation No. 1, as follows:

- The 1985 Reimbursement Agreement between the County and Dai-Ichi Kangyo Bank (the "Bank") provides for the registration of any unremarketed certificates in the name of the Bank. The obligation of the County to reimburse the Bank is satisfied by making the regularly scheduled long-term interest payments for up to five years following a purchase drawing. Holders other than Dai-Ichi Kangyo Bank may "put" certificates to the County's paying agent. If not remarketed, the certificates are acquired by the Bank and a "conversion" occurs because the Bank holds the certificates long-term without the ability to "put" to the County for payment.
- The expiration date of the 1985 issue letters of credit (and the associated Reimbursement Agreement) is December 15, 1995.
- The 1985 Reimbursement Agreement is not cancelable by Dai-Ichi Kangyo Bank prior to its expiration date, except with respect to events of default, the existence of which can be objectively determined by the County and the Bank.
- Dai-Ichi Kangyo Bank was the largest bank in the world on both an asset and deposit basis on the date of issuance of the 1985 letters of credit and thus is expected to be financially capable of honoring the Reimbursement Agreement.

Fees associated with the 1985 demand bonds primarily consist of letter of credit fees. The County is required to pay annually to Dai-Ichi Kangyo Bank amounts ranging from 1/5 to 1/4 of one percent of the letter of credit amount through their expiration date in 1995.

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**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
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**10. LONG-TERM OBLIGATIONS (Cont'd)**

**Debt Service Requirements to Maturity**

The following is a schedule of all long-term debt service requirements to maturity by bond type on an annual basis (in thousands):

<u>Fiscal Year(s) Ending June 30</u>	<u>General Obligation Bonds</u>	<u>Revenue Bonds*</u>	<u>Demand Bonds</u>	<u>Total</u>
1995	\$ 1,466	\$ 64,360	\$ 1,208	\$ 67,034
1996	1,433	65,193	1,392	68,018
1997	200	66,708	1,368	68,276
1998	202	66,892	1,248	68,342
1999	—	66,772	1,328	68,100
2000-2004	—	298,647	6,704	305,351
2005-2009	—	275,855	6,784	282,639
2010-2014	—	274,038	7,096	281,134
2015-2019	—	230,883	2,816	233,699
2020-2024	—	53,387	—	53,387
<b>Total</b>	<b>3,301</b>	<b>1,462,735</b>	<b>29,944</b>	<b>1,495,980</b>
<b>Less: Interest</b>	<b>106</b>	<b>732,569</b>	<b>16,044</b>	<b>748,719</b>
<b>Discount</b>	<b>—</b>	<b>8,764</b>	<b>—</b>	<b>8,764</b>
<b>Principal Payable</b>	<b>\$ 3,195</b>	<b>\$ 721,402</b>	<b>\$ 13,900</b>	<b>\$ 738,497</b>

The following is a schedule of all long-term debt service requirements to maturity by fund type and account group on an annual basis (in thousands):

<u>Fiscal Year(s) Ending June 30</u>	<u>Enterprise * Funds</u>	<u>Internal Service Funds</u>	<u>General Long- Term Debt Account Group</u>	<u>Total</u>
1995	\$ 28,649	\$ 3,438	\$ 34,947	\$ 67,034
1996	28,996	3,429	35,593	68,018
1997	30,802	3,418	34,056	68,276
1998	30,640	3,409	34,293	68,342
1999	30,649	3,401	34,050	68,100
2000-2004	150,250	—	155,101	305,351
2005-2009	147,299	—	135,340	282,639
2010-2014	145,843	—	135,291	281,134
2015-2019	103,060	—	130,639	233,699
2020-2024	—	—	53,387	53,387
<b>Total</b>	<b>696,188</b>	<b>17,095</b>	<b>782,697</b>	<b>1,495,980</b>
<b>Less: Interest</b>	<b>356,252</b>	<b>2,750</b>	<b>389,717</b>	<b>748,719</b>
<b>Discount</b>	<b>8,675</b>	<b>89</b>	<b>—</b>	<b>8,764</b>
<b>Add: Assignments</b>	<b>91</b>	<b>3,204</b>	<b>(3,295)</b>	<b>—</b>
<b>Principal Payable</b>	<b>\$ 331,352</b>	<b>\$ 17,460</b>	<b>\$ 389,685</b>	<b>\$ 738,497</b>

\* These schedule do not reflect the \$10,979 deferred amount on the early retirement of bonds for the Airport Enterprise Fund. Under GASB 23, the deferred amount is reported as a deduction from the new debt liability on the balance sheet. However, the deferred amount does not affect the principal amount of bonds to be paid as they mature.

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
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**10. LONG-TERM OBLIGATIONS (Cont'd)**

**Special Assessment District Bonds**

Special Assessment District Bonds consist of Assessment District Bonds and Community Facilities District Bonds.

Assessment District Bonds are issued pursuant to provisions of the Improvement Bond Act of 1915 (Division 10 of the California Streets and Highways Code). Proportionate shares of principal and interest installments sufficient in aggregate to meet annual bond debt service requirements are included on the regular county tax bills sent to owners of property against which there are unpaid assessments. Neither the faith and credit nor the taxing power of the County of Orange or any political subdivision thereof is pledged to the payment of the bonds. Accordingly, such obligations are not included in the accompanying financial statements.

Community Facilities District Bonds are issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, and the Marks-Roos Local Bond Pooling Act of 1985, and are payable from a portion of certain special taxes to be levied on property within the boundaries of the Community Facility District. Neither the faith and credit nor the taxing power of the County, or any political subdivision thereof is pledged to the payment of the bonds. Except for the special taxes, no other taxes are pledged to the payment of the bonds. The bonds are not general or special obligations of the County nor general obligations of the District, but are limited obligations of the District payable solely from certain amounts deposited by the District in the special tax fund. Accordingly, such obligations are not included in the accompanying financial statements.

The County is acting as an agent of the special assessment districts in collecting the assessments, forwarding the collections to other paying agents or directly to bondholders, and initiating any necessary foreclosure proceedings.

Major capital outlay expenditures relating to these bonds are accounted for in the "Special Assessment Districts and Service Areas" Capital Projects Fund. Because the County is not obligated in any manner for special assessment district debt, related debt service transactions are recorded within the "Deposit Fund-Local Boards, Commissions, Authorities and Districts," an Agency Fund.

Special assessment district and community facilities district bonds outstanding as of June 30, 1994, are: \$713,557.

See Note 1 for discussion of the County's ability to meet these long-term obligations as a result of the bankruptcy.

**11. ARBITRAGE REBATE PAYABLE**

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not paid to the Federal government at least every five years.

During the current year, the County performed calculations of excess investment earnings on various bonds and financings in accordance with arbitrage regulations. In accordance with these regulations, 90% of the amount due to the Internal Revenue Service (IRS) at the end of each five year period has been paid. The remaining 10% has been recorded as a liability in the General Long-Term Debt Account Group and will be paid after all bonds have been redeemed. Any rebate amounts identified as the result of interim reports are also recorded as a liability in the General Long-Term Debt Account Group. The County has determined that an arbitrage rebate liability of \$785 at June 30, 1994 is due to the IRS and is comprised of the following:

Orange County Development Agency Revenue Bonds, 1987	\$ 71
Orange County Development Agency Revenue Bonds, 1989	448
Orange County Public Facilities Corporation Revenue Bonds, 1989	258
Master Lease Schedule No. 1, 1988	8
	<u>\$ 785</u>

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**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
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**12. HOUSING REVENUE BOND PROGRAM**

The County first issued housing bonds in 1980. Since then, a total of over \$2,456,983 of such bonds have been issued. Housing bonds provide funds for the purchase of loans collateralized by first lien deeds of trust, certain reserve funds and other monies on single-family residences and multiple rental units located in certain areas of the County.

The bonds are payable solely from payments made on the purchased loans. It is the County's opinion that these bonds are not payable from any other revenues or assets of the County, and neither the faith and credit nor the taxing power of the County, the State of California, or any political subdivision thereof, is obligated to pay principal and interest on the bonds. Consequently, the transactions of these revenue bond programs are not included in the financial statements of the various funds and account groups of the County.

**13. LEASES**

Commitments Under Operating Leases

The County is committed under various operating leases primarily for office buildings, office equipment and other equipment. The following is an approximation of future minimum operating lease commitments:

	<u>Equipment</u>	<u>Real Property</u>	<u>Total</u>
FY 1994-95	\$ 6,256	\$ 27,289	\$ 33,545
FY 1995-96	1,550	27,554	29,104
FY 1996-97	584	27,033	27,617
FY 1997-98	85	26,578	26,663
FY 1998-99	-	24,816	24,816
Subsequent years	-	154,235	154,235
Total	<u>\$ 8,475</u>	<u>\$ 287,505</u>	<u>\$ 295,980</u>

Total rent expenditures for operating leases incurred for FY 93-94 were \$31,185.

Capital Leases

The following is an analysis of property leased under capital leases:

	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>	<u>General Fixed Assets Account Group</u>	<u>Total</u>
Equipment	\$ 555	\$ 3,134	\$ 5,788	\$ 9,477
Land	-	-	335	335
Structures and Improvements	-	-	618	618
	555	3,134	6,741	10,430
Less: accumulated depreciation	<u>(160)</u>	<u>(566)</u>	<u>-</u>	<u>(726)</u>
Total	<u>\$ 395</u>	<u>\$ 2,568</u>	<u>\$ 6,741</u>	<u>\$ 9,704</u>

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**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
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**13. LEASES (Cont'd)**

The following are the future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 1994:

	Enterprise Funds	Internal Service Funds	General Long-Term Debt Account Group	Total
FY 1994-95	\$ 72	\$ 641	\$ 1,455	\$ 2,168
FY 1995-96	-	641	1,393	2,034
FY 1996-97	-	586	64	650
FY 1997-98	-	532	39	571
FY 1998-99	-	192	39	231
Subsequent years	-	-	15	15
Total minimum lease payments	72	2,592	3,005	5,669
Less: amount representing interest	(3)	(423)	(243)	(669)
Present value of net minimum lease payments	<u>\$ 69</u>	<u>\$ 2,169</u>	<u>\$ 2,762</u>	<u>\$ 5,000</u>

The majority of the capital lease obligations payable in the General Long-Term Debt Account Group will be financed by the General Fund.

The following is a summary of changes in capital lease obligations for the General Long-Term Debt Account Group:

	Lease Principal Outstanding July 1, 1993	Obligations Incurred During Year	Lease Principal Paid/Reduced During Year	Lease Principal Outstanding June 30, 1994
Total capital lease obligations	<u>\$ 2,867</u>	<u>\$ 1,294</u>	<u>\$ 1,399</u>	<u>\$ 2,762</u>

**14. INTERFUND RECEIVABLES AND PAYABLES**

Interfund receivables and payables by fund are as follows:

	Due From Other Funds	Due To Other Funds
General Fund	<u>\$ 122,892</u>	<u>\$ 28,449</u>
	<u>122,892</u>	<u>28,449</u>
Special Revenue Funds		
Parking Facilities	116	47
Roads, Airport Land Use	2,578	4,355
Public Library	664	359
Fire Department	895	2,527
Flood Control District	1,437	3,202
Harbors, Beaches & Parks District	16,560	3,417
Service Areas, Lighting & Maintenance Districts	53	42
Redevelopment, Other Environmental Management	2,562	4,066
Other Public Protection	1,683	1,217
Contingencies, Economic Uncertainty	1,075	81,542
Community Services	21	597
Taxable Note Repayment	<u>105,375</u>	<u>17</u>
	<u>133,019</u>	<u>101,388</u>

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
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**14. INTERFUND RECEIVABLES AND PAYABLES (Cont'd)**

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
<b>Debt Service Funds</b>		
Redevelopment Agency Bonds	\$ 127	\$ 3,247
General Obligation, Other Revenue Bonds	3	-
	<u>130</u>	<u>3,247</u>
<b>Capital Projects Funds</b>		
Criminal Justice Facilities	677	112
County, Public Library, & Fire Department	2,446	581
Flood Control District	2,473	606
Harbors, Beaches & Parks District	1,241	13,694
Redevelopment Agency	398	704
Special Assessment Districts, Service Areas	467	446
Public Facilities Corporation	51	2
	<u>7,753</u>	<u>16,145</u>
<b>Enterprise Funds</b>		
Airport	969	514
Waste Management	17,517	565
	<u>18,486</u>	<u>1,079</u>
<b>Internal Service Funds</b>		
Communications	208	5,473
Unemployment Insurance	6	-
County Indemnity Health Plan	464	4
Workers' Compensation	397	69
Property & Casualty Risk	989	36
Transportation	749	75
Reprographics	200	70
Self-Insured Benefits	25	-
Telephone	840	607
	<u>3,878</u>	<u>6,334</u>
<b>Trust and Agency Funds</b>		
Civic Center Authorities	64	89
Other Expendable Trusts	791	6
Employees Retirement System	1,214	-
Extra Help Retirement Plan	18	-
Deposit Fund - Local Boards, Commissions, Authorities and Districts	61,700	6,831
Tax Unapportioned Fund	6,319	122,654
Clearing and Revolving Fund	(5,665)	7
Deferred Compensation Fund	187	-
Departmental Fund	26,751	91,308
	<u>91,379</u>	<u>220,895</u>
<b>Total</b>	<u><u>\$ 377,537</u></u>	<u><u>\$ 377,537</u></u>

Due to the County's bankruptcy (see Note 1), these interfund receivables and payables may be settled at lesser amounts depending upon the eventual allocation of investment losses among County funds.

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
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**15. OPERATING TRANSFERS AND RESIDUAL EQUITY TRANSFERS**

Operating transfers in totaling \$68,638 are comprised of \$17,446 into the General Fund, \$11,179 into the Special Revenue Funds, \$31,346 into the Debt Service Funds, \$6,815 into the Capital Projects Funds, \$1,046 into the Internal Service Funds (disclosed as an increase in contributed capital), and \$806 into the Expendable Trust Funds. Operating transfers out totaling \$68,638 are comprised of \$34,297 out of General Fund, \$14,001 out of the Special Revenue Funds, \$7,094 out of the Debt Service Funds, \$12,739 out of the Capital Project Funds, and \$507 out of the Internal Service Funds.

Residual equity transfers in totaling \$15,994 are comprised of \$87 into the General Fund, \$13,546 into the Special Revenue Funds, \$690 into the Capital Projects Funds, and \$1,671 into the Internal Service Funds (disclosed as an increase in contributed capital). Residual equity transfers out totaling \$15,994 are comprised of \$1,847 out of the General Fund, \$87 out of the Special Revenue Funds, and \$14,060 out of the Capital Projects Funds.

**16. DEFICIT EQUITY BALANCES OF INDIVIDUAL FUNDS**

The following funds have deficit retained earnings balances:

<u>Fund</u>	<u>Deficit (In Thousands)</u>
General Fund	\$234,525
Internal Service	
Communications	833
Unemployment Insurance	28
Workers' Compensation	15,678
Property and Casualty Risk	23,133

The deficit in the General Fund is a result of the estimated loss in the Treasurer's Investment Pool. (See Note 1.) Deficits in the Unemployment Insurance, Workers' Compensation and Property and Casualty Risk Funds result from accruals of actuarially-determined, incurred but not reported, losses, and from the estimated loss in the Treasurer's Investment Pool. The internal service funds will receive sufficient funding from other funds to cover disbursements during the years when they become payable.

Due to the County's bankruptcy (see Note 1), these deficits may be greater depending upon the eventual allocation of investment losses among County funds.

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
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**17. RESERVED FUND BALANCES**

Fund balances which are not available for appropriation at June 30, 1994 are reserved for the following purposes:

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Trust and Agency</u>
Fund Balance Reserved					
Encumbrances	\$ 40,377	\$ 70,171	\$ -	\$ 14,277	\$ -
Imprest Cash Funds	1,442	118	-	-	-
Long-Term Receivables	-	16,635	-	-	-
Employees' Retirement	-	-	-	-	2,216,480
Inventory of Materials and Supplies	882	271	-	-	-
Prepaid Costs/Expenses	951	-	25	-	-
Equipment Replacement	-	9,335	-	-	-
Construction	-	15,440	-	2,015	-
Land and Improvements Held for Resale	-	2,887	-	7,312	-
Economic Uncertainties	-	23,046	-	-	-
Low and Moderate Income Housing	-	1,272	-	616	-
Transportation Corridor Agency Loan	-	11,000	-	-	-
Fire Communication System	-	9,669	-	-	-
Development of Fire District	-	17,130	-	-	-
OCHA Operations	-	4,600	-	-	-
Redevelopment Loans	-	-	-	525	-
Debt Service	-	-	43,533	-	-
Future Construction Loans	-	6,781	-	-	-
General Reserve	-	285	-	-	-
Other Reserves	50	50	-	-	-
Reserved Fund Balance	<u>\$ 43,702</u>	<u>\$ 188,690</u>	<u>\$ 43,558</u>	<u>\$ 24,745</u>	<u>\$ 2,216,480</u>

Other reserves consist of a variety of amounts including repair and maintenance contracts, and replacement of materials. General reserves represent a segregation of a portion of fund balance that is restricted to provide for cash flow financing. General reserves, revenue anticipation notes, or a combination of both are used by the County to ensure that sufficient cash is available to meet operating needs each fiscal year until property tax revenues are received in December and April. General reserves are increased or decreased by the County Board of Supervisors as part of the annual budget process.

**18. FUND TYPE RECLASSIFICATIONS**

**Governmental Funds**

Effective July 1, 1993, pursuant to an in-depth analysis, the County reclassified \$1,852 of certain Special Revenue funds. Two funds previously accounted for in the "Other Public Protection" Special Revenue grouping, amounting to \$1,852, are now accounted for in the "Departmental Fund" Agency grouping. The reclassifications were made to each fund in which the purpose and types of activities more closely fit the definition of an agency fund type, wherein the County acts in the capacity of an agent for some other organization, government, or fund.

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
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**19. RESTATEMENT OF RETAINED EARNINGS**

In 1994, the Integrated Waste Management Department (IWMD) fully implemented the Governmental Accounting Standards Board's Statement No. 18, "Accounting For Municipal Solid Waste Landfill Closure and Postclosure Care Costs" (GASB 18). GASB 18 requires governments to accrue a liability for anticipated costs to provide the required care of closing landfill sites plus the costs of monitoring and maintaining the sites during the postclosure periods. Accordingly, retained earnings as of July 1, 1993 has been restated by \$77,393 to account for these postclosure costs. See Note 21 for the complete GASB 18 disclosure.

**20. ENTERPRISE FUNDS**

**A. Airport**

The Airport Enterprise Fund was established to account for self-supporting services rendered at John Wayne Airport. The Airport's staff coordinates and administers the general business activities related to the John Wayne Airport, including concessions, fixed base operations, leased property, and aircraft tiedown facilities.

**B. Waste Management**

This fund was established to provide monies for the operation, expansion, and closing of existing landfills and the opening of new landfills. Monies are collected through gate fees, which users pay based primarily on tonnage.

As part of the effort to increase revenue because of the bankruptcy (see Note 1), the County is investigating the possibility of accepting out-of-County waste to be deposited in County landfills.

**C. Segment Information for Enterprise Funds**

	<u>Airport</u>	<u>Waste Management</u>	<u>Total Enterprise Funds</u>
Operating revenues	\$ 58,001	\$ 84,655	\$ 142,656
Depreciation and amortization	13,674	4,013	17,687
Operating income	22,266	26,592	48,858
Operating grants, entitlements, and shared revenues	-	-	-
Operating transfers:			
In	-	-	-
Out	-	-	-
Tax revenues	-	-	-
Net income	(2,358)	8,694	6,336
Net current capital contributions	3,910	(12)	3,898
Plant, property and equipment:			
Additions	11,525	17,341	28,866
Deletions	1,134	754	1,888
Net working capital	37,822	126,614	164,436
Total assets	476,110	487,393	963,503
Bonds and other long-term liabilities:			
Payable from operating revenues	234,291	191,731	426,022
Payable from other sources	-	-	-
Total equity	131,496	65,678	197,174

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
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**21. WASTE DISPOSAL SITE CLOSURE AND POSTCLOSURE COSTS**

State laws and regulations require the Integrated Waste Management Department (IWMD) to place final covers on its landfill sites when the landfills stop accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that each respective landfill stops accepting waste, IWMD is required by GASB 18 to report a portion of these closure and postclosure care costs as an operating expense in each period based on the landfill capacity used as of each balance sheet date.

IWMD owns or operates the following waste disposal sites:

- FRB (Irvine)
- Olinda/Olinda Alpha (Brea)
- Prime Deshecha (San Juan Capistrano)
- Santiago Canyon (County)
- Coyote Canyon (closed in 1990)

All active waste disposal sites are owned by IWMD, with the exception of the Santiago Canyon site, which is leased. In 1990, IWMD closed their Coyote Canyon landfill, as this site had reached its maximum capacity.

The \$110,346 reported as the balance of the landfill closure and postclosure care liability at June 30, 1994 represents the cumulative amount accrued based on the percentage of the landfill capacity that has been used to date less actual costs disbursed related to the closure of the Coyote Canyon Landfill. IWMD will recognize the remaining estimated cost of closure and postclosure care of \$205,172 as the proposed capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in fiscal 1993. Actual costs may be higher due to inflation, changes in technology or changes in regulations. IWMD has landfill capacity permits to operate until the year 2038. With proposed expansion plans, however, IWMD intends to operate the landfills well beyond this date.

In compliance with the California Integrated Waste Management Board, IWMD has elected to make cash contributions to escrow funds to finance closure costs and has executed a pledge of future revenue agreement to assure that adequate funds are available to carry out postclosure care of all landfills. Accordingly, IWMD on an annual basis sets aside cash for FRB, Prima Deshecha, and Santiago Canyon into restricted escrow funds held by the County. An irrevocable letter of credit amounting to \$14,508 has been issued by a bank for the closure care costs of Olinda/Olinda Alpha in lieu of an escrow arrangement. As of June 30, 1994, \$13,761 has been set-aside for these costs. The state mandated formula under which these contributions are computed will provide for the accumulation of sufficient cash to cover all estimated closure costs when each site reaches maximum capacity. IWMD expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users.

**COUNTY OF ORANGE**  
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**22. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS**

At June 30, 1994, contracts entered into for proprietary fund type equipment, land, structures and improvements, and other commitments were as follows:

<u>Project Title</u>	<u>Remaining</u> <u>Commitments</u>
Significant Structures and Improvements and Other Commitments:	
<u>Airport</u>	
Runway/Taxiway Expansion and Strengthening	\$ 1,900
<u>Integrated Waste Management</u>	
Olinda LFG Recovery	1,266
FRB - Project-Phase 3	1,201
	<hr/>
Total	\$ <u>4,367</u>

**23. OTHER CONTINGENCIES**

In addition to the accrued liabilities for self-insurance claims incurred but not reported and other litigation and claims described previously, the County is also a defendant in numerous other lawsuits and claims arising from, among other things, breach of contract and tax disputes. Although the aggregate amount asserted in such lawsuits and claims is significant, County management believes that the ultimate outcome of these matters will not have a significant effect on the financial position or results of operations of the funds of the County.

Grant monies received from federal and state sources are subject to audit by these agencies to determine whether expenditures are in compliance with the respective grant provisions. County management does not believe that a material liability will result from these audits.

See Note 1 for discussion of contingencies related to the bankruptcy.

**24. ESTIMATED LIABILITY - OTHER LITIGATION AND CLAIMS**

The County records estimates of liabilities for litigation and claims expected to be paid primarily from the General Fund. Estimated liabilities for litigation and claims totaling \$150 have been recorded in the General Long-Term Debt Account Group at June 30, 1994, as none of these liabilities are expected to be liquidated with expendable available financial resources.

See Note 1 for discussion of estimated liability and claims related to the bankruptcy.

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**25. DEFINED BENEFIT PENSION PLANS**

**Orange County Employees' Retirement System**

Substantially all County employees participate in the Orange County Employees' Retirement System (OCERS), a cost-sharing multiple-employer public employee retirement system established in 1945 under the County Employees' Retirement Law of 1937. The employees of several other smaller units of local government also participate in the system.

OCERS' financial statements for the year ended December 31, 1993, are included in the County's comprehensive annual financial report as a pension trust fund. At December 31, 1993, total OCERS membership consisted of:

Retirees and beneficiaries currently receiving benefits:	5,524
Active employees, including those pending retirement or withdrawal, and terminated employees entitled to benefits but not yet receiving them:	
Fully Vested	11,881
Partially Vested	—
Nonvested	<u>8,095</u>
Total	<u>25,500</u>

The covered payroll (regular salaries only) for County employee members of OCERS for the year ended December 31, 1993, was \$608.4 million; the County's total payroll for all employees was \$682.9 million.

OCERS provides for retirement, death, disability, and cost-of-living benefits, and is subject to provisions of the County Employees' Retirement Law of 1937 and other applicable statutes. Members employed after September 20, 1979, are designated as Tier II members. Members employed prior to September 21, 1979, are designated as Tier I members; the establishment of Tier II resulted in a reduced allowance beginning at age 50. The retirement allowance is based upon the member's age at retirement, final compensation, and the total years of service under the System. If an employee terminates before rendering five years of service, the employee forfeits the right to receive benefits and is entitled to withdraw employee contributions made together with accumulated interest. If an employee terminates after five years of service, the employee may elect to leave the accumulated deposits in the retirement fund and be granted a deferred retirement allowance at the time the member would have been entitled to the allowance if service had been continued.

Significant accounting policies of OCERS are as follows:

- During the year, OCERS maintains its books on the accrual basis of accounting.
- Quoted market prices are used to value United States Government securities, corporate and foreign bonds and debentures, equity securities, and international equity investments. Mortgage investments purchased during the year are valued at cost, which approximates market value. Real estate equity investments are valued at market value as determined by independent appraisals. The equity index, open end and venture capital funds, and limited partnership investments are carried at market value, as determined by the investment managers.
- Unclaimed monies represent terminated members' contributions left on deposit and refundable to them when claimed, and are included in accounts payable in the accompanying financial statements.

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**25. DEFINED BENEFIT PENSION PLANS (Cont'd)**

- Accumulated plan benefits are those future periodic payments, including lump-sum distributions, that are attributable, under OCERS' provisions, to the service employees have rendered. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees and their beneficiaries; (b) beneficiaries of employees who have died; and (c) present employees and their beneficiaries. Benefits under OCERS are based on employees' "final compensation." For Tier I members, one year of service is used to calculate benefits, while for Tier II members, a three-year average is used to calculate benefits. The accumulated plan benefits for active employees are based on their average compensation. Benefits payable under all circumstances (retirement, death, disability, and termination of employment) are included to the extent they are deemed attributable to employee service rendered to the valuation date. The actuarial present value of accumulated plan benefits is determined by the actuary, and is that amount which results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuation as of December 31, 1993, were:

- a. Life expectancy of participants is based on the 1983 Group Annuity Mortality Table.
- b. Retirement, disability, turnover, and mortality assumptions are based on OCERS' actual experience.
- c. The investment return, net of administrative expense, is assumed to be 8.0 percent.
- d. Retirees' benefits are assumed to increase 3 percent annually, once retired, in accordance with OCERS' cost-of-living provisions.
- e. Prior service cost is amortized over an initial 30-year period. The remaining period, as of December 31, 1993, was 14 years.
- f. Salaries are assumed to remain at current levels in the future.

In accordance with various Board of Supervisors' resolutions, the County's funding policy is to make periodic contributions to OCERS in amounts that are estimated to remain a constant percentage of employees' compensation such that when combined with employees' contributions and with investment income, will fully provide for all employees' benefits by the time they retire. In 1993, employer's contributions were 2.55% for General members and 17.93% for Safety members.

Covered employees are required to contribute a percentage of their annual compensation to OCERS as a condition of participation. For Tier I members, the normal rate of contribution is based on the member's age of entry in OCERS, and is calculated to provide an annual annuity equal to 1/200 of the member's "final compensation" for each year of service rendered at age 60 for General members, and at the age of 50 for Safety members. For Tier II General members, the rate of contribution is calculated to provide an annual annuity equal to 1/120 of the member's "final compensation" for each year of service rendered at age 60. For Tier II Safety members, the rate of contribution is calculated to provide an annuity equal to 1/100 of the member's "final compensation" for each year of service rendered at age 50.

The County's actuarially determined employer contribution requirement for the year ended December 31, 1993, was \$26.5 million, based on recommended contribution rates published in an actuarial study. The County's actual contribution was \$41.4 million based on rates established in the previous annual actuarial study. The contribution requirement and actual contribution from County employees was \$38.4 million. These actual employer and employee contributions represent 6.8% and 6.3% of covered payroll, respectively.

Changes in actuarial assumptions, benefit provisions, actuarial funding method and other factors which occurred during the year ended December 31, 1993 caused the differences in the actuarially determined employer contribution rate.

The County's 1993 contribution represented 94.2% of total contributions required of all participating entities.

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
**JUNE 30, 1994**  
**(UNAUDITED)**  
**(Amounts in Thousands)**

**25. DEFINED BENEFIT PENSION PLANS (Cont'd)**

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess OCERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and employers. OCERS does not make separate measurements of assets and pension benefit obligation for individual employers. The pension benefit obligation at December 31, 1993, for OCERS as a whole, determined through an actuarial valuation performed as of that date, was \$2,000.5 million. OCERS' net assets available for benefits on that date were \$2,226.4 million, leaving an overfunded pension obligation of \$225.9 million, categorized as follows (in millions):

	OCERS Pension Benefit Obligation	Allocation to County of Orange (94.2%) Based on 1993 Contributions
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving them	\$ 899.2	\$ 847.0
Current employees:		
Accumulated employee contributions including allocated investment income	369.2	347.8
Employer financed-vested	347.8	327.6
Employer financed-nonvested	384.3	362.0
	<hr/>	<hr/>
Total pension benefit obligation	2,000.5	1,884.4
Net assets available for benefits, at market value	2,226.4	2,097.2
	<hr/>	<hr/>
Overfunded pension benefit obligation	\$ (225.9)	\$ (212.8)

During the year ended December 31, 1993, OCERS experienced a net increase of \$155.8 million in the pension benefit obligation. None of that change was attributable to plan amendments.

Trend information for the three years ended December 31, 1991, 1992 and 1993, respectively, is as follows: available assets were sufficient to fund 121.0 percent, 105.5 percent and 111.3 percent of the pension benefit obligation. The overfunded pension benefit obligation represented 46.3 percent, 14.4 percent and 31.2 percent of the annual payroll for employees covered by the OCERS for 1991, 1992 and 1993, respectively. Presenting the overfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation for analysis purposes. In addition, for the three years ended December 31, 1991, 1992 and 1993, the County's contributions to the system, all made in accordance with actuarially determined requirements, were 12.5 percent, 7.5 percent and 5.7 percent, respectively, of annual covered payroll.

Ten-year historical trend information showing OCERS' progress in accumulating sufficient assets to pay benefits when due and other relevant information is presented in the OCERS Report on Audit as of December 31, 1993, which can be obtained from the Office of the County Auditor-Controller.

In September 1994, the County sold \$320,040 in taxable pension obligation bonds. The proceeds were paid to OCERS to fund the unfunded actuarially accrued liability (UAAL) as of June 30, 1994.

Because of the need to reduce the size of the County workforce as a result of the bankruptcy (see Note 1), the County offered two early retirement incentive packages in January and March of 1995. The first incentive package offered eligible employees a payout of their pre-petition and post-petition vacation, sick leave, and compensatory time balances over three fiscal years. In the second incentive package, eligible employees could convert their vacation, sick leave, and compensatory time balances to a dollar value and purchase up to two years' retirement credit. Any residual dollar value would be paid over five fiscal years.

The final impact to the County's budget from these early retirement packages is not known at this time.

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
**JUNE 30, 1994**  
**(UNAUDITED)**  
**(Amounts in Thousands)**

**25. DEFINED BENEFIT PENSION PLANS (Cont'd)**

**Defined Benefit Retirement Plan**

In January, 1992, the County adopted a defined benefit retirement plan for employees performing services on the basis of less than half-time or as extra help. The plan was adopted to comply with the Omnibus Budget Reconciliation Act of 1990. The eligible employees of this plan are not covered by the Orange County Employee Retirement system.

The normal retirement benefits for a participant who retires on or after the normal retirement date is a monthly amount equal to one-twelfth of two percent of the participant's career earnings during the first 30 years of credited service. The normal retirement date is the first day of the month coinciding with or immediately preceding a participant's 65th birthday.

Each participant shall have his compensation reduced each pay day based upon the participant's attained age as of January 1 of each calendar year and recommended contribution rates. The reduction in compensation shall be contributed by the County to the administrator on a monthly basis. The County may prospectively increase or decrease the contribution rates by plan amendment effective on the first day of the plan year.

The plan's initial actuarial assumptions are an 8.0 percent investment return net of administrative expense, and life expectancy is based upon the Unisex Pension Mortality Table.

The Board of Supervisors has delegated the County Treasurer the authority to hold, invest, and reinvest the plan assets and plan income.

The number of employees, the covered payroll, and the amount of County contributions are not disclosed because the amounts are not material.

An actuarial study to determine the under/over-funded pension benefit obligation is in process.

**26. POSTRETIREMENT HEALTH CARE BENEFITS**

In addition to providing pension benefits, the County makes health care benefits available for substantially all retired employees. These health care benefits are funded by insurance premiums paid by retirees enrolled in the health plans. The County recognizes the cost of these benefits by expensing periodic insurance premiums and claims in various funds, which were \$6,238 in fiscal year 1993-94.

**27. DEFERRED COMPENSATION PLAN**

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457, which permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Two separate administrative arrangements exist within the framework of this deferred compensation plan. The Treasurer administers the County-sponsored plan, and the Public Employees Benefit Services Corporation (PEBSO) administers the National Association of Counties (NACo) plan. County employees can opt to invest in either or both of these plans.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the County (without being restricted to the provisions of benefits under the plan), subject only to the claims of the County's general creditors. Participants' rights under the plan are equal to those of general creditors of the County in an amount equal to the fair market value of the deferred account for each participant.

The County's deferred compensation plan is accounted for in the Deferred Compensation Fund, an agency fund, which was established to provide a convenient method of setting aside a portion of the County's assets to meet its obligations under the plan. Neither the existence of the plan nor the fund has been deemed to create a trust.

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
**JUNE 30, 1994**  
**(UNAUDITED)**  
**(Amounts in Thousands)**

**27. DEFERRED COMPENSATION PLAN (Cont'd)**

At June 30, 1994, approximately sixty-four percent of the total assets in this fund were invested in the Orange County Investment Pool (OCIP), and the remaining thirty-six percent of the assets, held by PEBSCO, were invested outside of the pool.

The portion of the deferred compensation plan invested in the OCIP suffered losses due to the liquidation of investments following the bankruptcy (see Note 1). The Board of Supervisors has resolved to limit the loss of this portion of the plan to 10% of the book value as of December 31, 1994 pending approval from the bankruptcy court and a favorable Private Letter Ruling from the Internal Revenue Service.

**28. SUBSEQUENT EVENTS**

(See Note 1 for discussion of the effects of the County's bankruptcy filing on December 6, 1994.)

- A. On July 28, 1994, the County of Orange sold bonds which refunded Assessment District 87-1 (Golden Lantern), in the amount of \$15,420. The district was renamed, at that time in accordance with the Improvement Act of 1915, Reassessment District No. 94-1 (Golden Lantern) Limited Obligation Refunding Bonds.
- B. On August 24, 1994, the County of Orange sold bonds which refunded eight of the Community Facilities Districts (CFD 87-1, 87-3, 87-4, 87-5A, 87-5B, 87-5C, 87-5D, and 87-8) in the amount of \$239,340. The refunded issue is known as the South Orange County Public Financing Authority Special Tax Revenue Bonds, 1994 Series C (Foothill Area).
- C. In July 1994, the County sold \$169,000 of tax and revenue anticipation notes due and payable July 19, 1995.
- D. In August 1994, the County sold \$31,000 of tax and revenue anticipation notes due and payable August 10, 1995.
- E. In July 1994, the County sold \$600,000 of short-term taxable notes due and payable July 10, 1995.
- F. In July 1994, the County sold \$111,000 of "Teeter Plan" taxable notes due and payable June 30, 1995.
- G. In August 1994, the County sold \$64,000 of "Teeter Plan" tax-exempt notes due and payable June 30, 1995.
- H. In September 1994, the County sold \$320,040 in taxable pension obligation bonds to fund the unfunded actuarially accrued liability (UAAL) of the Orange County Employees' Retirement System as of June 30, 1994.

**COUNTY OF ORANGE**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**  
**JUNE 30, 1994**  
**(UNAUDITED)**  
**(Amounts in Thousands)**

**29. OTHER REQUIRED DISCLOSURES**

Generally accepted accounting principles require disclosure, as part of the "Combined Statements - Overview", of certain information concerning individual funds and account groups including:

**A. Debt Service Requirements to Maturity**

This requirement is effectively met in this report by Note 8 (Notes Payable), Note 10 (Long-Term Obligations), and Note 13 (Leases).

**B. Changes in General Long-Term Debt By Type**

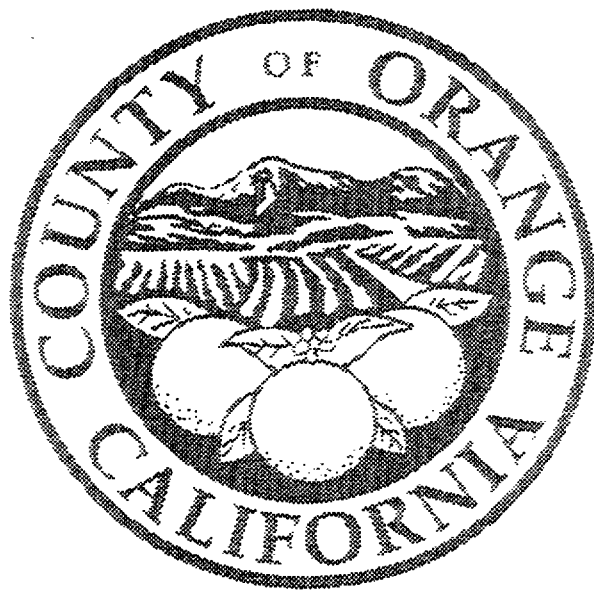
This information is disclosed in Note 2.0 (Compensated Absences), Note 8 (Notes Payable), Note 10 (Long-Term Obligations), Note 13 (Leases), and Note 24 (Other Litigation and Claims).

**C. Significant Violations of Finance-Related Legal and Contractual Provisions**

See Note 1 for discussion of violations of such provisions.

**D. Joint Ventures**

The County did not participate in any joint ventures during the year ended June 30, 1994.



# **COUNTY OF ORANGE**

## **GENERAL FUND**

### **INTERIM FINANCIAL INFORMATION**

**PERIODS ENDED MARCH 31, 1995 AND 1994**

**(UNAUDITED)**

**COUNTY OF ORANGE**  
**INTERIM STATEMENT OF REVENUES AND EXPENDITURES**  
**GENERAL FUND - BUDGETARY BASIS**  
**PERIODS ENDED MARCH 31, 1994 AND MARCH 31, 1995**  
**(UNAUDITED)**  
**(In Thousands)**

	<u>03/31/94</u>	<u>03/31/95</u>	
<b>Revenues</b>			
Taxes	111,526	71,899	(1)
Licenses, Permits, and Franchises	3,322	3,231	
Fines, Forfeitures and Penalties	8,181	28,107	(2)
Use of Money and Property	63,079	(41,217)	(3)
Intergovernmental Revenues	530,803	563,249	(4)
Charges for Services	134,378	157,736	
Other Revenues	26,038	26,723	
Total Revenues	<u>877,327</u>	<u>809,728</u>	
<b>Expenditures</b>			
Current			
General Government	99,071	106,284	
Public Protection	366,244	375,420	
Health and Sanitation	153,275	152,433	
Public Assistance	375,785	394,521	
Capital Outlay	9,065	11,178	
Debt Service			
Principal Retirement	7,054	4,607	
Interest	19,599	48,973	
Total Expenditures	<u>1,030,093</u>	<u>1,093,416</u>	
Excess (Deficit) of Revenues			
Over Expenditures	(152,766)	(283,688)	
Other Financing Sources (Uses)			
Operating Transfers In	83,216	138,922	
Operating Transfers Out	(595)	--	
Excess(Deficit) of Revenues and Other			
Sources over Expenditures and Other Uses	<u>(70,145)</u>	<u>(144,766)</u>	

See page 2 for definition of basis of accounting and for variance analysis of selected revenue items.

COUNTY OF ORANGE  
INTERIM STATEMENT OF REVENUES AND EXPENDITURES  
GENERAL FUND - BUDGETARY BASIS  
(UNAUDITED)  
(In Thousands)

Budgetary Basis of Accounting:

The budgetary basis of accounting is the same basis of accounting used to prepare financial statements in conformity with generally accepted accounting principles (GAAP), but treats certain commitments such as purchase orders and executory contracts as expenditures. Such commitments are referred to as encumbrances.

This interim statement of revenues and expenditures for the General Fund for March 31, 1994 and March 31, 1995 has been prepared on a budgetary basis. However, it does not include all accruals necessary to conform with GAAP.

Variance Analysis of Selected Revenue Items:

- (1) The decrease in Taxes is due to a one-time Teeter plan credit from the Educational Revenue Augmentation Fund, a one-time Teeter buyout entry for penalties on delinquent taxes, and a reclassification of delinquent penalties to Fines, Forfeitures and Penalties in the fiscal year ending June 30, 1995.
- (2) The increase in Fines, Forfeitures, and Penalties is the result of the reclassification of delinquent penalties from Taxes.
- (3) The decrease in the Use of Money and Property was produced by adjustments for losses on the liquidation of investments, recorded by the Treasurer in the interest revenue account, during the fiscal year ending June 30, 1995.
- (4) The increase in Intergovernmental Revenues is due to increased motor vehicle license fee revenues, increases in State and Federal funding for public assistance programs, and a new Federal subvention for the Probation Department.

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## APPENDIX C

### SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS

The following summary discussion of selected features of the Bonds and the Trust Agreement dated as of June 1, 1995 (the "Trust Agreement"), is made subject to all of the provisions of such documents and to the discussions of such documents contained elsewhere in this Official Statement. This summary discussion does not purport to be a complete statement of said provisions, and prospective purchasers of the Bonds are referred to the complete text of said documents, copies of which are available upon request from the County of Orange, 10 Civic Center Plaza, Hall of Administration, Santa Ana, California 92701, Attention: Director of Public Finance and Insurance.

#### Definitions of Certain Terms

The following are summaries of certain definitions contained in the Trust Agreement.

**Definitions.** Unless the content shall clearly indicate some other meaning or may otherwise require, the terms herein shall, for all purposes of the Trust Agreement, have the meanings therein specified.

*"Additional Refunding Bonds"* shall mean one or more series of bonds issued pursuant to the Trust Agreement for the purpose of refunding the Outstanding Bonds.

*"Arbitrage and Tax Matters Certificate"* shall mean the Arbitrage and Tax Matters Certificate of the County that is to be executed in connection with the issuance of the Bonds.

*"Authorized Officer"* when used with reference to the County shall mean Chairman of the Board of Supervisors, the Chief Executive Officer, the Treasurer-Tax Collector, or such other officer designated by the County to perform the act or sign the document in question.

*"Bankruptcy Code"* shall mean Title 11 of the United States Code, 11 U.S.C. Sections 101 *et seq.*, as in effect on December 6, 1994, together with all amendments, modifications and replacements as the same shall exist on any relevant date to the extent applicable to the Cases.

*"Bankruptcy Court"* shall mean the United States Bankruptcy Court for the Central District of California, or such other division of such court or such other court having original jurisdiction over the Cases.

*"Bankruptcy Court Order"* shall mean the Order of the Bankruptcy Court, dated May 2, 1995 as supplemented by the Order of the Bankruptcy Court, June 5, 1995, approving (i) the Settlement Agreement imposing the obligation on the County to pay the Settlement Amount and (ii) the issuance by the County of the Warrants, the Refunding Bonds and the Bonds, as such order may be amended, modified or supplemented from time to time with the express written joinder or consent of MBIA.

"*Board*" shall mean the Board of Supervisors of the County, or such other board, body, commission or agency succeeding to the functions thereof.

"*Bondholder*", or "*owner*", or "*Holder*" or words of similar import shall mean, when used with reference to a Bond, the Person in whose name the Bond is registered (including MBIA if it shall have paid for such Bond under its Policy), or such owners' duly authorized attorney in fact, representative or assigns.

"*Bonds*" shall mean any bond or bonds authenticated and delivered under and pursuant to the Trust Agreement.

"*Carve-Out Expenses*" shall mean, with respect to the administrative expenses of the Debtors and of any official committee or subcommittee appointed by the Bankruptcy Court in the Cases, unpaid allowed fees and expenses of attorneys, accountants and financial advisors retained in the Cases pursuant to Sections 327, 904 and 1103 of the Bankruptcy Code and unpaid fees and expenses of attorneys, accountants and financial advisors payable pursuant to Section 904 of the Bankruptcy Code by order of the Bankruptcy Court; provided, however, that (a) the fees and expenses entitled to priority shall not include Excluded Professional Expenses and (b) the amount entitled to priority ("Priority Professional Expenses") shall not exceed an aggregate of \$2,000,000 per month (inclusive of any holdbacks required by the Bankruptcy Court) (the "Professional Expense Cap") in the event of any default in payment of principal of or interest on any obligation of the County and only for so long as such default is not cured.

"*Cases*" shall mean the Debtors' jointly administered cases under Chapter 9 of the Bankruptcy Code, numbers SA94-22272-JR and 94-22273-JR.

"*Certificate*" shall mean, as the context indicates, a signed document attesting to or acknowledging the matters therein stated or setting forth matters to be determined pursuant to the Trust Agreement.

"*Code*" means the Internal Revenue Code of 1986, as amended and supplemented from time to time, and the applicable temporary, proposed, or final regulations promulgated by the United States Treasury Department thereunder or under the Internal Revenue Code of 1954, as amended.

"*Costs*" shall mean all the costs of preparation, sale, executing and delivering the Bonds and other costs related to the financing provided thereby, including, but not limited to, all printing and document preparation expenses in connection with this Trust Agreement and with the sale of the Bonds; legal fees and expenses of counsel with respect to the issuance of the Bonds; any computer and other expenses incurred in connection with the Bonds; the initial fees and expenses of the Trustee and its counsel; municipal bond insurance premiums; and other fees and expenses incurred in connection with the execution and delivery of the Bonds or the implementation of the financing, to the extent such fees and expenses are approved by the County.

"*County*" shall mean the County of Orange, California.

"*Debtors*" shall mean the County and the Pool.

*"Defeasance Obligations"* shall mean any of the obligations described in clause (i) of the definition of Investment Securities which are noncallable and Refunded Municipal Obligations.

*"DTC"* shall mean The Depository Trust Company and its successors and assigns.

*"Event of Default"* means any of the events set forth in the Trust Agreement under "Events of Default".

*"Excluded Professional Expenses"* shall mean fees and expenses (a) for services rendered in connection with the assertion of or joinder in any claim, counterclaim, action, proceeding, application, motion, objection, defense or other contested matter, the purpose of which is to seek or the result of which would be to obtain any order, judgment, determination, declaration or similar relief (i) invalidating, setting aside, avoiding or subordinating, in whole or part, the Bonds, the senior administrative priority with respect thereto or the liens and security interest in favor of the Trustee, (ii) staying, preventing, hindering, defending against or otherwise delaying, whether directly or indirectly, the Trustee's collection of any Bonds, or the Trustee's exercise or enforcement of any right or remedy it may have under the Trust Agreement, applicable nonbankruptcy law, or otherwise (including but not limited to any motion to impose a stay or otherwise enjoin the Trustee, or any opposition to any motion by the Trustee to lift or modify a stay in respect of any such assertion, realization, exercise or enforcement by the Trustee) and (b) of the Pool Investors' subcommittee of the County's Creditors' Committee (or of any separate committee) otherwise payable out of the Professional Fees Reserve (as defined and described in the Settlement Agreement).

*"Insurance Agreement"* shall mean the insurance agreement by and between the County and MBIA, dated as of June 1, 1995, entered into pursuant to the MBIA Commitment and as from time to time amended and supplemented.

*"Investment Securities"* shall mean any of the investments set forth below, if and to the extent that the same are legal for the investment of funds of the County:

- (i) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.
- (ii) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):
  - A. U.S. Export-Import Bank (Eximbank)  
Direct obligations or fully guaranteed certificates of beneficial ownership
  - B. Farmers Home Administration (FmHA)  
Certificates of beneficial ownership
  - C. Federal Financing Bank

- D. Federal Housing Administration Debentures (FHA)
  - E. General Services Administration  
Participation certificates
  - F. Government National Mortgage Association (GNMA or "Ginnie Mae")  
GNMA - guaranteed mortgage-backed bonds  
GNMA - guaranteed pass-through obligations
  - G. U.S. Maritime Administration  
Guaranteed Title XI financing
  - H. U.S. Department of Housing and Urban Development (HUD)  
Project Notes  
Local Authority Bonds  
New Communities Debentures - U.S. government guaranteed debentures  
U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds
- (iii) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (Stripped securities are only permitted if they have been stripped by the agency itself):
- A. Federal Home Loan Bank System  
Senior debt obligations
  - B. Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")  
Participation Certificates  
Senior debt obligations
  - C. Federal National Mortgage Association (FNMA or "Fannie Mae")  
Mortgage-backed securities and senior debt obligations
  - D. Student Loan Marketing Association (SLMA or "Sallie Mae")  
Senior debt obligations
  - E. Resolution Funding Corp. (REFCORP) obligations
  - F. Farm Credit System  
Consolidated systemwide bonds and notes
- (iv) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by Standard & Poor's of AAAM-G; AAAM; or AAM. Such funds may include funds for which First Interstate Bancorp, its affiliates or subsidiaries provide investment or other management services.
- (v) Certificates of deposit secured at all times by collateral described in (i) and/or (ii) above. Such certificates must be issued by commercial banks, savings and loan

associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.

- (vi) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.
- (vii) Investment Agreements, including GIC's, acceptable to MBIA.
- (viii) Commercial paper rated, at the time of purchase, "Prime - 1" by Moody's and "A-1" or better by Standard & Poor's.
- (ix) Bonds or notes issued by any state or municipality which are rated by Moody's and Standard & Poor's in one of the two highest rating categories assigned by such agencies.
- (x) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1" or "A" or better by Standard & Poor's.
- (xi) Repurchase agreements provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date.

Repurchase Agreements must satisfy the following criteria or be approved by MBIA.

A. Repurchase Agreements must be between the municipal entity and a dealer bank or securities firm

- (1) Primary dealers on the Federal Reserve reporting dealer list which are rated A or better by Standard & Poor's Corporation and Moody's Investor Services, or
- (2) Banks rated "A" or above by Standard & Poor's and Moody's.

B. The written repurchase agreements must include the following:

- (1) Securities which are acceptable for transfer are:
  - (a) Direct U.S. governments, or
  - (b) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC)
- (2) The term of the repurchase agreements may be up to 30 days.
- (3) The collateral must be delivered to the municipal entity, trustee (if trustee is not supplying the collateral) or third party acting as agent for the trustee

(if the trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

(4) Valuation of Collateral

The securities must be valued weekly, marked-to-market at current market price plus accrued interest

The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by municipality, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

C. Legal opinion which must be delivered to the County:

Repurchase Agreements meet guidelines under state law for legal investment of public funds.

"*Lien*" shall mean any mortgage, deed of trust, pledge, lien, security interest, charge or other encumbrance or security arrangement of any nature whatsoever, including but not limited to any conditional sale or title retention arrangement, and any assignment, deposit arrangement or lease intended as, or having the effect of, security.

"*MBIA*" shall mean the MBIA Insurance Corporation, its successors and assigns.

"*MBIA Commitment*" shall mean the Commitment to Issue the Financial Guaranty Insurance Policy, attached as an exhibit to the Insurance Agreement.

"*Motor Vehicle License Fees*" shall mean all moneys credited to the Motor Vehicle License Fee Account in the Transportation Tax Fund to which the County is entitled under Chapter 5 (commencing with Section 11001) of Part 5 of Division 2 of the Revenue and Taxation Code of the State of California as amended from time to time.

"*Outstanding*" or "*outstanding*" shall mean, as of any date, when used with reference to Bonds, all Bonds issued or authorized pursuant to the Trust Agreement, except: (i) any Bonds paid in full, surrendered for cancellation or canceled at or prior to such date; and (ii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated or delivered pursuant to the Trust Agreement; and (iii) Bonds deemed to be no longer outstanding hereunder as provided in the Trust Agreement provisions regarding defeasance; provided that Bonds paid by MBIA pursuant to the Policy shall be deemed to be Outstanding.

"*Paying Agent*" shall mean any bank or trust company appointed as Paying Agent pursuant to the Trust Agreement, and any successor or successors.

"*Pledged Revenues*" shall mean all Motor Vehicle License Fees.

*"Policy"* shall mean the MBIA financial guaranty insurance policy which shall insure the payment of principal and interest of the Bonds in accordance with the terms thereof.

*"Pool"* shall mean the Orange County Investment Pools.

*"Principal Installment"* shall mean (a) the principal amount of Bonds scheduled to mature on a certain future date for which no Sinking Fund Installments have been established, or (b) the unsatisfied balance of Sinking Fund Installments scheduled to be paid on a certain future date for Bonds.

*"Priority Professional Expenses"* shall mean those expenses entitled to a priority as set forth in the definition of "Carve-Out Expenses".

*"Redemption Price"* shall mean, when used with respect to a Bond or portion thereof to be redeemed, the unpaid principal amount thereof plus the applicable premium, if any, payable upon either optional or mandatory redemption (other than by Sinking Fund Installments) thereof pursuant to the Trust Agreement.

*"Refunded Municipal Obligations"* shall mean obligations of any state, the District of Columbia or possession of the United States of America or any political subdivision thereof which obligations are rated in the highest rating category by Moody's and S&P and provision for the payment of the principal of and interest on which shall have been made by deposit with a trustee or escrow agent of direct obligations of, or obligations guaranteed by, the United States of America, which are held by a bank or trust company organized and existing under the laws of the United States of America or any state, the District of Columbia or possession thereof in the capacity as custodian, the maturing principal of and interest on which when due and payable shall be sufficient to pay when due the principal of and interest on such obligations of such state, the District of Columbia, possession, or political subdivision.

*"Refunding Bonds"* shall mean any Bond authenticated and delivered on original issuance for the purpose of refunding the Warrants.

*"Registrar"* shall mean the Trustee, and its successor or successors, and any other corporation which may at any time be substituted in its place pursuant to the Trust Agreement.

*"Reserve Account Requirement"* shall mean an aggregate amount equal to the least of (i) the maximum amount of Principal Installments and interest scheduled to be paid in the current or any future Bond Year on all Bonds Outstanding, (ii) 125% of original average annual debt service on the Bonds Outstanding and (iii) 10% of the face amount of the Bonds or, if the original issue discount on the Bonds is greater than 2% of the face amount of the Bonds, then 10% of the difference of such face amount of the Bonds and such original issue discount.

*"Reserve Guaranty"* shall mean an insurance policy or surety bond provided for the funding of the Reserve Account by an insurer acceptable to MBIA whose claims-paying ability is rated in either of the two highest rating categories by at least two nationally recognized rating agencies.

"*Revenues*" shall mean taxes, income, revenue, cash receipts, fees and any other moneys which are legally available for the payment of expenses and other obligations of the County, including without limiting the generality of the foregoing, the Pledged Revenues.

"*Section 53584.1*" shall mean Section 53584.1 of the Government Code of the State.

"*Section 53585.1*" shall mean Section 53585.1 of the Government Code of the State.

"*Settlement Agreement*" shall mean that certain Comprehensive Settlement Agreement re Orange County Investment Pools, approved by order of the Bankruptcy Court entered on May 2, 1995, among the Debtors and each of the Settling Pool Participants, imposing on the County, among other things, the obligation to pay the Settlement Amount to the Settling Option A Pool Participants in partial settlement of certain claims asserted against the County by such Participants in connection with the Cases.

"*Settlement Amount*" shall mean approximately \$231,737,207.

"*Settling Option A Pool Participants*" shall mean each Settling Pool Participant who has elected Option A in accordance with and as defined in the Settlement Agreement.

"*Settling Pool Participants*" shall mean the school districts, special districts, cities and other public agencies and instrumentalities identified on Exhibits 1 and 2 to the Settlement Agreement.

"*Sinking Fund Installment*" shall mean each amount of principal scheduled to be paid other than at maturity which is established pursuant to the Trust Agreement.

"*State*" shall mean the State of California.

"*State Controller*" shall mean the office of the Controller of the State, including any officer designated by such Controller to perform the act or sign the document in question.

"*Tax Requirements*" shall mean those provisions of the Code and the temporary, proposed, or final regulations promulgated thereunder by the United States Treasury Department which are applicable to the Bonds and which must be complied with in order that the interest on the Bonds not be, and continue not to be, includable in the gross income of the owners thereof for federal income tax purposes.

"*Term Bonds*" shall mean Bonds the retirement or the redemption of which shall be provided for from Sinking Fund Installments.

"*TRANS*" shall mean tax and revenue anticipation notes, if any, issued by the County in the Fiscal Year ending June 30, 1996.

"*TRANS Debt*" shall mean all debt service consisting of all principal of and interest on the TRANS in an annual amount not to exceed \$115,000,000, without preference or priority of any one of such obligations over any other such obligation.

**"Trust Agreement"** shall mean the Trust Agreement executed in connection with the Bonds and from time to time amended or supplemented by one or more Supplemental Trust Agreements.

**"Trustee"** shall mean initially First Interstate Bank of California, and its successor or successors, and any other corporation which may at any time be substituted in its place pursuant to the Trust Agreement.

**"Validation Judgment"** shall mean the judgment validating the issuance of the Bonds and all related proceedings entered by the Superior Court of the State of California for the County of Orange on June 5, 1995 (Case No. 74-55-37).

**"Warrants"** shall mean the Warrants in an aggregate principal amount equal to the Settlement Amount issued by the County in partial satisfaction of the certain claims asserted by the Settling Pool Participants in the Case regarding the Pool pursuant to the Settlement Agreement.

#### **Trust Agreement to Constitute Contract (Section 103).**

In consideration of the purchase and acceptance of the Bonds by those who shall own the same from time to time, the provisions of the Trust Agreement shall be a part of the contract of the County with the owners of the Bonds and MBIA and shall be deemed to be and shall constitute a contract between the County and the owners from time to time of the Bonds and MBIA. The pledge made thereby and the provisions, covenants and agreements therein set forth to be performed by or on behalf of the County will be for the equal benefit, protection and security of the owners of any and all such Bonds and MBIA, each of which, regardless of time or times of maturity or due dates, will be of equal rank without preference, priority or distinction over any other thereof except as otherwise expressly provided by the Trust Agreement.

#### **Authorization of Bonds (Section 201).**

The Trust Agreement creates and establishes an issue of Bonds of the County to be known and designated as "County of Orange, California Refunding Recovery Bonds, 1995 Series A". The aggregate principal amount of Bonds which may be executed by the County and authenticated and delivered by the Trustee and secured by the Trust Agreement shall be \$278,790,000.

#### **Pledge of Pledged Revenues, Funds and Other Moneys; Priority; and Related Matters (Section 202).**

The Bonds are payable solely from the Revenues and are secured by the funds pledged therefor, but only to the extent provided in the Trust Agreement and subject to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement. The County pledges to the Trustee, individually and on behalf of the owners from time to time of the Bonds and MBIA, as security

for the payment of the Bonds in accordance with their terms: (i) the proceeds of sale of the Bonds pending application thereof in accordance with the provisions of the Trust Agreement, (ii) the Pledged Revenues, and (iii) the Debt Service Fund including the investments, if any, therein.

Pursuant to Section 364(c)(2) of the Bankruptcy Code and Section 53584.1, the liens and security interest granted to the Trustee shall be valid and first perfected liens and security interest prior to all other liens, claims and security interests now existing or hereafter arising, except as otherwise provided in Section 704 of the Trust Agreement. Such liens and security interest and the priority thereof shall remain in effect in accordance with the terms of the Trust Agreement until the Trust Agreement has terminated and all Bonds have been indefeasibly paid in cash in full.

The Bonds shall constitute superpriority administrative claims in the Cases having priority over all administrative expenses and unsecured claims against the County now existing or hereafter arising, of any kind or nature whatsoever, including without limitation all administrative expenses of the kind specified in Section 364(c)(1) of the Bankruptcy Code, or Sections 503(b) and 922(c) of the Bankruptcy Code, subject, as to priority, only to Carve-Out Expenses having priority over the Bonds to the extent set forth in the definition of Carve-Out Expenses and subject to parity TRANS Debt. The Bonds shall cease to have such priority of payment upon termination of the Cases or upon earlier approval by written consent of MBIA.

The liens and security interest of Section 202(a) of the Trust Agreement shall constitute valid and perfected liens and security interest. The Trustee shall not be required to file any financing statements, notices of lien or similar instruments in any jurisdiction or filing office, or to take possession of any collateral or to take any other action in order to validate or perfect the liens and security interests granted by or pursuant to the Trust Agreement, the Bankruptcy Court Order, the Validation Judgment or Section 53584.1.

Subject to the provisions of Section 202(d) of the Trust Agreement, the liens, security interests, lien priorities, administrative priorities and other rights and remedies granted to the Trustee pursuant to the Trust Agreement, the Bankruptcy Court Order, the Validation Judgment and Section 53584.1 (specifically including but not limited to the existence, perfection and priority of the liens and security interests provided in the Trust Agreement and in the Orders and Section 53584.1, and the senior administrative priority provided in the Trust Agreement and in the Bankruptcy Court Order, the Validation Judgment and Section 53584.1) shall not be modified, altered or impaired in any manner by any other financing or extension of credit or incurrence of debt by the County (pursuant to Section 364 of the Bankruptcy Code or otherwise), or by any dismissal or conversion of the Cases, or by any other act or omission whatever, including, without limitation, the failure to file a claim or request for payment of administrative expenses. Without limitation, notwithstanding any such order, financing, extension, incurrence, dismissal, conversion, act or omission:

- (i) except for the Carve-Out Expenses and the TRANS Debt, no costs or expenses of administration which have been or may be incurred in the Cases or otherwise or any conversion of the same or in any other proceedings related thereto, and no priority claims, are or will be prior to or on a parity with any claim of the Trustee against the County,

(ii) the liens and security interest granted to the Trustee by Section 202(a) of the Trust Agreement shall, pursuant to Section 364(c)(2) of the Bankruptcy Code and Section 53584.1, constitute valid and first perfected liens and security interest, which shall be prior to all other liens, claims and interests, now existing or hereafter arising, in favor of any other creditor or any other Person whatsoever, and except as otherwise provided in Section 704 of the Trust Agreement, and

(iii) the liens and security interest in favor of the Trustee set forth in of the Trust Agreement shall continue valid and perfected without the necessity that the Trustee file financing statements or otherwise perfect its liens and security interests under applicable nonbankruptcy law.

The obligations of the County under and in connection with the Bonds, including the obligation to make all payments of interest and principal and premium, if any, thereon when due are obligations of the County imposed by law not limited as to payment from any special source of funds and are absolute and unconditional, without any right of set-off or counterclaim. The Bonds do not constitute an obligation for which the County is obligated or permitted to levy or pledge any form of taxation. The Bonds do not constitute an indebtedness of the County or the State or any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Pursuant to Section 943(b)(5) of the Bankruptcy Code, and notwithstanding any provision contained in the Trust Agreement to the contrary, the owners from time to time of the Bonds and the Trustee hereby agree that the Bonds shall not become immediately due and payable upon the entry of an order of the Bankruptcy Court confirming a plan or plans in either Case but shall remain outstanding and be payable in accordance with their respective terms.

#### **Delivery of Additional Refunding Bonds (Section 204).**

The County reserves the right to issue one or more series of Additional Refunding Bonds pursuant to terms of the Trust Agreement at any time to refund any Outstanding Bonds.

#### **Establishment of Funds (Article 5).**

The Trustee will deposit into the Debt Service Fund from the Revenues, (A) as and when required, the amounts required to be deposited in the Interest Account, Principal Account and Bond Retirement Account, and (B) as and when required, the amounts required to be deposited in the Reserve Account established in the Debt Service Fund.

**Interest Account.** Not later than the 25th day of June, 1995, and on or before the 25th day of each calendar month thereafter, the Trustee will pay or cause to be paid into the Debt Service Fund to the credit of the Interest Account an amount such that, if the same amount were so paid and credited to the Interest Account on the 25th day of each succeeding calendar month thereafter and prior to the next date upon which an installment of interest falls due on the Bonds, the aggregate of the amounts so paid and credited to the Interest Account would on such date be equal to the installment of interest then falling due on all Bonds then Outstanding. In computing the amount required to be deposited into the Interest Account there shall be taken into

consideration, (i) any amounts received from the State Controller pursuant to Section 53585.1, (ii) any amounts paid or to be paid into the Debt Service Fund and credited to the Interest Account representing accrued interest received on the sale of the Bonds, (iii) earnings which actually have been received on investments or reinvestments of the funds on deposit in the Interest Account, and (iv) any of the amounts required by the Trust Agreement to be deposited in the Interest Account. Any amount in excess of the amount required for the payment of interest on the Bonds on any Interest Payment Date which is on deposit to the credit of the Interest Account shall be paid by the Trustee to the County on each Interest Payment Date, without further authorization or direction by the County and shall be free and clear of the lien of the Trust Agreement.

**Principal Account.** Not later than the 25th day of the twelfth month prior to the date upon which the first installment of principal is payable with respect to the Serial Bonds, and on or before the 25th day of each succeeding calendar month thereafter, the Trustee will pay, or cause to be paid, into the Debt Service Fund to the credit of the Principal Account an amount such that, if the same amount were so paid and credited to the Principal Account on the 25th day of each succeeding calendar month thereafter and prior to the next date upon which an installment of principal falls due on the Serial Bonds, the aggregate of the amounts so paid and credited to the Principal Account, together with any amounts received from the State Controller pursuant to Section 53585.1 and any moneys which actually have been received in such Account resulting from investment or reinvestment of the moneys in such Account, would on such date be equal to the installment of principal then falling due. Any amount in excess of the amount required for the payment of a Principal Installment on the Bonds on the date upon which a Principal Installment is required to be made shall be paid by the Trustee to the County on each date upon which a Principal Installment is required to be made, without further authorization or direction by the County and shall be free and clear of the lien of the Trust Agreement.

**Bond Retirement Account.** On or before the 25th day of the twelfth month prior to the date upon which the first Sinking Fund Installment is payable with respect to the Term Bonds, and on or before the 25th day of each succeeding calendar month thereafter, the Trustee will pay, or cause to be paid, into the Debt Service Fund to the credit of the Bond Retirement Account for the purpose of retiring such Term Bonds, an amount such that, if the same amount were so set aside and credited to the Bond Retirement Account for such purpose on the 25th day of each calendar month thereafter and prior to the next date upon which a Sinking Fund Installment falls due, the aggregate of the amounts so paid and credited to the Bond Retirement Account for the purpose of retiring the Term Bonds would be sufficient to redeem such Term Bonds. In computing the amount required to be deposited into the Bond Retirement Account, earnings which actually have been received on investments or reinvestments of the funds on deposit in the Bond Retirement Account shall be taken into consideration and allowed for.

The accrued interest payable on the Term Bonds redeemed with moneys credited to the Bond Retirement Account in the Debt Service Fund for the purpose of meeting the specified Sinking Fund Installment requirements of the Term Bonds shall be paid from moneys credited to the Interest Account therein. Any amount in excess of the amount required for the payment of a Sinking Fund Installment on any date upon which a Sinking Fund Installment is required to be made shall be paid by the Trustee to the County on each date upon which a Sinking Fund Installment is required to be made, without further authorization or direction by the County and shall be free and clear of the lien of the Trust Agreement.

From amounts on deposit in the Bond Retirement Account, the County may, prior to the forty-fifth day preceding the due date of any Sinking Fund Installment purchase Bonds at prices (including any brokerage and other charges) not exceeding the Redemption Price payable for such Bonds when such Bonds are redeemable by application of such Sinking Fund Installment plus unpaid interest accrued to the date of purchase, such purchases to be made by the Trustee as directed in writing by an Authorized Officer of the County.

Upon the purchase or redemption (other than by application of Sinking Fund Installments) of any Bond, an amount equal to the principal amount of the Bond so purchased or redeemed shall be credited toward the Sinking Fund Installments thereafter to become due as directed in writing by an Authorized Officer of the County.

At the option of the County, the County may, in lieu of depositing all or any part of the Sinking Fund Installments into the Bond Retirement Account of the Debt Service Fund, (i) furnish the Trustee and MBIA with a Certificate of an Authorized Officer stating that the County has purchased for cancellation such Term Bonds in the principal amount, and bearing the numbers, specified therein, and that said Term Bonds have not been previously included in any such Certificate and (ii) where such Term Bonds are not held in book entry form, deliver such Term Bonds to the Trustee, or where such Term Bonds are held in book entry form, instruct the Trustee to arrange for the delivery of such Term Bonds accordingly; and thereupon the Sinking Fund Installments with respect to the Term Bonds may be reduced by the principal amount of such Term Bonds cancelled, as provided by such Certificate.

As soon as practicable after the forty-fifth day preceding the due date of any such Sinking Fund Installment, the Trustee shall proceed to call for redemption, the Bonds for which such Sinking Fund Installment was established in such amount as shall be necessary to complete the retirement of the principal amount specified for such Sinking Fund Installment of the Bonds. The Trustee shall so call such Bonds for redemption from moneys in the Bond Retirement Account of the Debt Service Fund, and, if there are not sufficient moneys in the Bond Retirement Account the Trustee shall transfer such moneys to the Bond Retirement Account in accordance with the Trust Agreement sufficient therefor from the Reserve Account sufficient to pay the applicable Redemption Price thereof on the redemption date. The Trustee shall apply to the redemption of the Bonds on each such redemption date, the amount required for the redemption of such Bonds.

*Reserve Account.* On the date of the initial issuance and delivery of the Bonds, an aggregate amount equal to the Reserve Account Requirement will be deposited in the Debt Service Fund for credit to the Reserve Account in accordance with the Trust Agreement.

Moneys in the Debt Service Fund shall be transferred by the Trustee to the Paying Agent on or before the date upon which any interest or Principal Installment or Redemption Price is due on the Bonds, either at the maturity date thereof or redemption date prior to maturity, in amounts sufficient to meet such maturing installments of principal, interest and redemption premium, if any, when due. In the event that there shall be a deficiency in the Interest Account, the Principal Account or the Bond Retirement Account in the Debt Service Fund, the County shall promptly make up such deficiency from the Reserve Account by withdrawal of cash therefrom for that purpose and by the sale or redemption of Investment Securities held in the Reserve Account, if necessary, in such amounts as will provide cash in the Reserve Account sufficient to make up any such deficiency. Such withdrawal shall be made

prior to any claim on the Policy. In the event of a withdrawal from the Reserve Account, the County shall make up such deficiency by depositing with the Trustee, from funds legally available therefor, beginning in the month following a withdrawal from the Reserve Account and in twelve equal monthly installments such amount as will increase the amount in the Reserve Account to the Reserve Account Requirement.

If, on any June 2nd, the moneys and value of Investment Securities in the Reserve Account based on cost or amortized value exceeds the Reserve Account Requirement, the amount of such excess shall be deposited into the Debt Service Fund.

Whenever the assets of the Debt Service Fund, including the Reserve Account (exclusive of any Reserve Guaranties) shall be sufficient to provide moneys to retire all the Bonds then Outstanding, including such interest thereon as thereafter may become due and payable and any premiums upon redemption thereof, no further payments need be made into the Debt Service Fund, the County may elect to authorize or direct the Trustee to call all Bonds which may be redeemed by their terms, for redemption on the next succeeding redemption date for which the required notice of redemption can practicably be given, and will apply such moneys to such retirement or redemption.

#### **Application of Proceeds of Bonds and Other Moneys (Section 506).**

All the proceeds of the sale of the Bonds will be paid to the Trustee, for application in the amounts and for the purposes authorized in the Trust Agreement, and moneys of the County legally available therefor shall be paid by the County to the persons and in the amounts, if any, for application in each case as provided in the Trust Agreement.

The Authorized Officer is authorized and directed on behalf of the County to give directions to the Trustee, as Trustee and Paying Agent, as to the investments to be made under the Trust Agreement of the proceeds of the Bonds, which investments are limited to Investment Securities. In addition, the Authorized Officer and other employees of the County are authorized and directed to take all actions necessary or appropriate to effectuate the transactions contemplated by the Trust Agreement, including but not limited to such actions as shall be necessary and sufficient to cause the Refunding Bonds to cease to be outstanding.

#### **Bond Proceeds Fund (Section 507).**

The proceeds of the Bonds shall be deposited into the Bond Proceeds Fund and shall be disbursed therefrom. The Bond Proceeds Fund shall be held in trust by the Trustee, for the benefit of the owners of the Bonds and MBIA pending application thereof in accordance with and as set forth on Schedule I of the Trust Agreement. Any moneys remaining in the Bond Proceeds Fund after such disbursements have been made shall be transferred to the Interest Account of the Debt Service Fund.

### **Investment of Funds (Section 509).**

Except as otherwise provided in the Trust Agreement moneys in the Debt Service Fund will, to the fullest extent practicable and reasonable, be invested and reinvested by the Trustee, upon the direction of an Authorized Officer (promptly confirmed in writing), solely in Investment Securities which shall mature or be subject to redemption at the option of the owner thereof on or prior to the respective dates when the moneys therein will be required for the purposes intended; provided, however, Investment Securities held for the credit of the Reserve Account shall not have maturities in excess of five (5) years. In the absence of such direction from the County, the Trustee shall invest such monies in securities listed in section (iv) of the definition of Investment Securities. The Trustee shall not be liable for any depreciation in value of any such investments.

### **Valuation or Sale of Investments (Section 510).**

Investment Securities in any Fund or Account created under the provisions of the Trust Agreement shall be deemed at all times to be part of such Fund or Account and any profit realized from the liquidation of such investment shall be credited to such Fund or Account and any loss resulting from liquidation of such investment shall be charged to such Fund or Account. Any net profits remaining after accumulating the sum of all profits realized and losses suffered from the liquidation of such investments in any Fund or Account shall be retained in the Debt Service Fund; provided, however, that if the money and value of investments in the Reserve Account in the Debt Service Fund shall exceed the Reserve Account Requirement, the amount of such excess shall be transferred by the Trustee, without further authorization or direction by the County, to the Debt Service Fund. Unless the Trustee is required to liquidate Investment Securities pursuant to the terms of the Trust Agreement, no Investment Securities shall be liquidated at a loss without the prior consent of MBIA.

In computing the amount in any Fund or Account, Investment Securities therein shall be valued at the lower of cost or, if purchased at a premium or discount, at their Amortized Value which such amount shall be calculated by the County and provided to the Trustee. Any such computation shall include accrued interest on the Investment Securities paid as part of the purchase price thereof and not repaid. Such computation shall be made annually on June 30th for all Funds and Accounts established pursuant to the Trust Agreement and at such other times as the County shall determine or as may be required by the Trust Agreement.

Except as otherwise provided in the Trust Agreement, the Trustee, as directed by an Authorized Officer of the County (promptly confirmed in writing), shall use its best efforts to sell at the best price obtainable, or present for redemption, any Investment Securities held by the Trustee in any Fund or Account whenever it shall be necessary, and upon oral request (promptly confirmed in writing) from an Authorized Officer of the County in order to provide moneys to meet any payment or transfer from such Fund or Account. The Trustee shall not be liable or responsible for any loss resulting from any such investment, sale, liquidation or presentation for investment made in the manner provided in the Trust Agreement.

Moneys held by the Trustee under the Trust Agreement may be pooled in order to make any purchase of Investment Securities or deposit of moneys held under the Trust Agreement, which purchases or deposits are otherwise permitted hereunder; provided, however,

that the Trustee shall at all times keep accurate and complete records of the Investment Securities so purchased and deposits so made in sufficient detail as will permit the application of such Investment Securities and deposits, and the proceeds thereof, solely for the purposes, at the times and in the manner provided in the Trust Agreement.

#### **Certain Covenants (Article 7).**

The County represents, covenants and agrees with the Trustee, the purchasers and owners of all Bonds issued pursuant to the Trust Agreement, as follows:

*Administrative Priority; Lien Priority; Protection of Security.* The County is duly authorized under all applicable laws to create and issue the Bonds, to execute and deliver the Trust Agreement and to pledge the Pledged Revenues and other moneys, securities and funds purported to be pledged by the Trust Agreement in the manner and to the extent provided in the Trust Agreement. The Bonds and the provisions of the Trust Agreement are and will be valid and legally enforceable obligations of the County in accordance with their terms and the terms of the Trust Agreement.

Pursuant to the Bankruptcy Court Order, the Bonds will constitute senior allowed administrative expenses in the Cases having priority over all administrative expenses and unsecured claims against the County now existing or hereafter arising, of any kind or nature whatsoever, including without limitation all administrative expenses of the kind specified in Sections 364(c)(1) or 503(b) and 922(c) of the Bankruptcy Code, subject, as to priority, only to the Carve-Out Expenses having priority over the Bonds to the extent set forth in the definition of Carve-Out Expenses and subject to parity TRANS Debt.

Pursuant to the Bankruptcy Court Order and in the case of the liens and security interest granted to the Trustee by Section 202(a) of the Trust Agreement pursuant to Section 53584.1, the Bonds will be secured by valid and perfected liens on and security interest in all of the Pledged Revenues and other moneys, securities and funds pledged under the Trust Agreement, senior to all other liens, claims and security interests now or hereafter arising except as otherwise provided in Section 704 of the Trust Agreement.

The County shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of and lien on the Pledged Revenues and other moneys, securities and funds pledged under the Trust Agreement and all the rights of the Bondholders and MBIA under the Trust Agreement against all claims and demands of all Persons whomsoever.

*Bankruptcy Court Order; Validation Judgment; Administrative Priority; Lien Priority; Payment of Claims.* The County shall not at any time seek, consent to or suffer to exist any modification, stay, vacation or amendment, or appeal of the Bankruptcy Court Order or the Validation Judgment without the express written consent of MBIA.

So long as such senior priority shall remain in effect as provided in Section 202(d) of the Trust Agreement, the County shall not at any time suffer to exist a priority for any administrative expenses or unsecured claims against the County (now existing or hereafter arising of any kind or nature whatsoever, including without limitation any administrative expenses of the kind specified in Sections 364(c)(1) or 503(b) and 922(c) of the Bankruptcy

Code) equal or superior to the senior priority of the Trustee in respect of the Bonds, except for the Carve-Out Expenses having priority over the Bonds to the extent set forth in the definition of Carve-Out Expenses and subject to parity TRANS Debt.

The County shall not at any time suffer to exist any Lien on the Pledged Revenues or other moneys, securities and funds pledged under the Trust Agreement having a priority superior to the liens and security interest and administrative claim in favor of the Trustee in respect of the Bonds; nor shall the County at any time suffer to exist any such Lien having a priority equal to the liens, security interest and administrative claim in favor of the Trustee in respect of the Bonds, except as otherwise provided in Section 704 of the Trust Agreement.

Prior to the date on which the Bonds have been paid in full in cash and the Trust Agreement has been discharged, the County shall not pay any administrative expense claims except Priority Professional Expenses.

**Issuance of Other Obligations.** Nothing contained in the Trust Agreement shall prohibit or prevent, or be deemed or construed to prohibit or prevent, the County from authorizing and issuing bonds, notes, certificates, warrants or other evidences of indebtedness or entering into any lease obligations, in either case, secured as to payment thereof pursuant to Section 364(c)(2) of the Bankruptcy Code, Section 53584.1, or any other provision of applicable laws by a lien and pledge on the Pledged Revenues having a priority equal or subordinate to the liens and security interest in favor of the Trustee in respect of the Bonds granted pursuant to said Section 53584.1; provided, however, that in the case of the issuance of bonds, notes, certificates, warrants or other evidences of indebtedness or the entering into of any lease obligations, the payment of which is secured by a lien on the Pledged Revenues equal to the liens and security interest in favor of the Trustee, the County shall be required to deliver, or cause to be delivered, to the Trustee prior to such issuance (1) a Certificate of an Authorized Officer of the County certifying that the aggregate Pledged Revenues for the period of twelve full consecutive calendar months, out of the most recently completed period of fifteen full calendar months, preceding the date of delivery of such certificate is not less than 1.25 times the maximum aggregate annual debt service on all of (i) the Outstanding Bonds (excluding any Bonds to be refunded by the obligations proposed to be issued), (ii) any other outstanding obligations secured by the Pledged Revenues and (iii) the obligations then proposed to be issued or otherwise undertaken; and (2) the written consent of MBIA.

**Intercept.** The County elects to guarantee payment of the Bonds in accordance with the provisions of Section 53585.1 and covenants to provide notice to the State Controller of such election as required by subsection (a)(1) of said Section 53585.1, together with the transfer schedule referred to in subsection (a)(4) of said Section with copies to MBIA and further covenants not to withdraw or cause the withdrawal from the intercept program so long as any Bonds are outstanding.

**Additional Tax Covenants.** The County covenants with the holders from time to time of the Bonds that it will comply with the Tax Requirements. The Authorized Officer is authorized to execute all certificates, agreements and other documents necessary or desirable to evidence compliance with such covenant including, without limitation, the Arbitrage and Tax Matters Certificate of the County that is to be executed in connection with the issuance of the Bonds. The Authorized Officer is further authorized and directed to make all investments of moneys held under the Trust Agreement and otherwise held by or on behalf of the County in

accordance with the covenants and agreements of the County that are contained in such Arbitrage and Tax Matters Certificate and in such other certificates, agreements and other documents.

In connection with, and in furtherance of, the foregoing covenant, the Authorized Officer is authorized and directed to pay to the United States Treasury Department at such time or times and in such amounts as shall be required by the Treasury Department all amounts required under Section 148 of the Code to be rebated, including without limitation, (i) as of and within 60 days after the fifth and tenth anniversaries of June 1, 1995, an amount equal to the amount required under Section 148(f) of the Code to be rebated on such dates and (ii) as of and within 60 days after the date on which all of the Bonds have been retired, an amount equal to the balance of all rebatable amounts. Such payments shall be made to the Internal Revenue Service at the Internal Revenue Service Center, Philadelphia, Pennsylvania 19255. Each such payment shall be accompanied by Internal Revenue Service Form 8038-T (or any successor or other applicable form).

#### **Events of Default (Section 801).**

Each of the following events is defined as and shall constitute an "Event of Default" whether or not the Trustee has knowledge of such:

(i) if payment of a Principal Installment or the Redemption Price of any Bond shall not punctually be made when due and payable, whether at the stated maturity thereof, upon redemption or otherwise or if the monthly deposits required to be made pursuant to Section 503, Section 504 or, following a withdrawal from the Reserve Account, Section 505 of the Trust Agreement are not made when due;

(ii) if payment of the interest on any Bond shall not punctually be made when due or if the monthly deposits required to be made pursuant to Section 502 of the Trust Agreement are not made when due;

(iii) if the County shall default in the performance or observance of any covenant contained in Section 702, Section 703, Section 704 or Section 709 of the Trust Agreement;

(iv) if the County shall fail to duly and punctually perform or observe any other of the covenants, agreements or conditions contained in the Trust Agreement or in the Bonds, on the part of the County to be performed, and such failure shall continue for forty-five (45) days after written notice thereof from the Trustee, MBIA or the owners of not less than twenty-five percent (25 %) in principal amount of the Bonds then Outstanding; provided that, if such failure shall be such that it cannot be corrected within such forty-five (45) day period, it shall not constitute an Event of Default if corrective action is instituted within such period and diligently pursued until the failure is corrected;

(v) if, other than in connection with the Cases, an order, judgment, or decree shall be entered by any court of competent jurisdiction, with the consent or acquiescence of the County, or if such order, judgment or decree, having been entered without the consent or acquiescence of the County, shall not be vacated or set aside or

discharged or stayed (or in case custody or control is assumed by said order, such custody or control shall not otherwise be terminated) within forty-five (45) days after the entry thereof, and if appealed, shall not thereafter be vacated or discharged: (A) appointing a receiver, trustee or liquidator for the County; or (B) assuming custody or control of the whole or any substantial part of the assets of the County under the provisions of any law for the relief or aid of Debtors; or (C) approving a petition filed against the County under the provisions of the Bankruptcy Code; or (D) granting relief to the County under any amendment to the Bankruptcy Code, or under any other applicable bankruptcy act, which shall give relief substantially similar to that afforded by Chapter 9 thereof;

(vi) if, other than in connection with the Cases, the County shall (A) admit in writing its inability to pay its debts generally as they become due; or (B) file a petition in bankruptcy or seeking a composition of indebtedness; or (C) make an assignment for the benefit of its creditors; or (D) file a petition or any answer seeking relief under the Bankruptcy Code, or under any amendment thereto, or under any other applicable bankruptcy act which shall give relief substantially the same as that afforded by Chapter 9 of said Code; or (E) consent to the appointment of a receiver of the whole or any substantial part of the assets of the County; or (F) consent to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of Debtors of custody or control of the County;

(vii) if an order with respect to either of the Cases shall be entered by the Bankruptcy Court, or either Debtor shall file an application for an order, with respect to the Cases, in each case without the express prior written consent of a majority in aggregate principal amount of the Bonds then Outstanding, (A) to revoke, reverse, stay, modify, supplement or amend the Bankruptcy Court Order, or (B) to permit any administrative expense or any claim (now existing or hereafter arising, of any kind or nature whatsoever) to have administrative priority as to the Debtors equal or superior to the senior administrative expense priority of the Trustee in respect of the Bonds, except for the Carve-Out Expenses and the parity TRANS Debt having priority over the Bonds, or (C) to grant or permit the grant of a Lien on the Pledged Revenues and other moneys, securities and funds purported to be pledged by the Trust Agreement having priority superior to the liens and security interest of the Trustee, or (D) to permit a charge against the Pledged Revenues and other moneys, securities and funds purported to be pledged by the Trust Agreement pursuant to Section 506(c) of the Bankruptcy Code without the prior written consent of a majority in aggregate principal amount of the Bonds then Outstanding, or (E) to grant or permit the grant of a Lien on the Pledged Revenues and other moneys, securities and funds purported to be pledged by the Trust Agreement, except as permitted by Section 704 of the Trust Agreement;

(viii) if an application for any of the orders described in clause (vii) above shall be made by a Person other than the Debtors and such application is not contested by either Debtor in good faith and the relief requested is granted in an order that is not stayed pending appeal;

(ix) if an order shall be entered by a California court of competent jurisdiction revoking, reversing, staying, modifying, supplementing or amending the Validation Judgment; and

- (x) an Event of Default under the Insurance Agreement.

Upon the occurrence and during the continuance of any Event of Default, the Trustee shall, upon the written request of MBIA and may upon the written request of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding affected by such Event of Default, with the request of MBIA, and receipt of indemnity to its reasonable satisfaction, in its own name and as the Trustee of an express trust:

(a) by mandamus, suit, action or proceeding, compel the County and its officers, agents or employees to perform each and every term, provision and covenant contained in the Trust Agreement and the Bonds, and require the carrying out of any or all such covenants and agreements of the County and the fulfillment of all duties imposed upon it by the Act and any other applicable law;

(b) by suit, action or proceeding in equity, enjoin any acts or things which are unlawful or in the violation of any of the rights of the owners of the Bonds; or

(c) by suit, action or proceeding in any court of competent jurisdiction, require the County and its officers to account as if it and they were the trustees of an express trust.

#### **Notice to Bondholders of an Event of Default (Section 802).**

The Trustee, within twenty-five (25) days after the Trustee has taken knowledge of the occurrence of an Event of Default, shall give to the Bondholders, in the manner provided in Section 1304 of the Trust Agreement, notice of all defaults known to the Trustee, and shall give prompt written notice thereof to the County, unless such defaults shall have been cured before the giving of such notice (the term "default" or "defaults" for the purpose of this Section being defined to be any Event or Events of Default specified in Section 801 of the Trust Agreement).

#### **Payment of Funds to the Trustee; Application of Revenues in an Event of Default (Section 803).**

If an Event of Default shall occur and be continuing, all Revenues of the County and other moneys received or collected for the benefit or for the account of owners of the Bonds by the Trustee shall be applied as follows (provided that proceeds of the Policy shall be applied only to pay principal and interest on the Bonds):

First, to the payment of all fees and expenses reasonably necessary and proper to carry out the Trustee's duties hereunder and to the payment of the reasonable charges of the Trustee (including reasonable fees and disbursements of its counsel) incurred by the Trustee in exercising its powers and duties hereunder;

Second, to the payment to the Persons entitled thereto of all installments of interest then due on the Bonds (including any interest on overdue principal) in the order of the maturity of such installments, earliest maturities first, and if the amounts available shall not be sufficient to pay in full any installment or installments of interest

maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

Third, to the payment to the Persons entitled thereto of the principal and premium, if any, due and unpaid upon the Bonds at the time of such payment without preference or priority of any Bond over any other Bond, and if the amounts available therefor shall not be sufficient to pay in full any principal and premium, if any, due and unpaid upon the Bonds at such time, then to the payment thereof, ratably, according to the amounts due respectively for principal and redemption premium, without any discrimination or preference.

Whenever moneys are to be applied as above, such moneys shall be applied by the Trustee, at such times, and from time to time, as it in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future.

If and whenever all overdue installments of interest on all Bonds together with the reasonable and proper charges, expenses, and liabilities of the owners of the Bonds, their respective agents and attorneys, and all other sums payable by the County under the Trust Agreement including the Principal Installments or Redemption Price of all Bonds which shall then be payable, shall either be paid in full by or for the account of the County or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Trust Agreement or the Bonds shall be made good and secured to the satisfaction of the Trustee or provision deemed by the Trustee and MBIA to be adequate therefor, the County and the Trustee shall be restored to their former positions and rights under the Trust Agreement, and all Revenues shall thereafter be applied as provided in Article V of the Trust Agreement. The resumption of the application of Revenues as provided in Article V of the Trust Agreement shall not extend to or affect any subsequent default under the Trust Agreement or impair any right consequent thereon.

#### **Certain Powers and Rights of Trustee (Section 804).**

In addition to rights granted the Trustee pursuant to Section 801 of the Trust Agreement, if an Event of Default shall happen and shall not have been remedied then, and in every such case, the Trustee, either in its own name or as Trustee of an express trust, or as attorney-in-fact for the owners of the Bonds, or in any one or more of such capacities, by its agents and attorneys, shall be entitled at the direction of MBIA and empowered to proceed forthwith to institute such suits, actions and proceedings at law or in equity for the collection of all sums due in connection with the Bonds and to protect and enforce its rights and the rights of the owners of the Bonds and MBIA under the Trust Agreement for the specific performance of any covenant contained in the Trust Agreement, or in aid of the execution of any power granted in the Trust Agreement, or for an accounting against the County as trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights, or to perform any of its duties under the Trust Agreement. The Trustee shall be entitled and empowered either in its own name or as a Trustee of an express trust, or as attorney-in-fact for the owners of the Bonds or in any one or more of such capacities, to file such proof of debt, amendment of proof of debt, claim,

petition or other document as may be necessary or advisable in order to have the claims of the Trustee and of the owners of the Bonds allowed in any equity, receivership, insolvency, bankruptcy, liquidation, readjustment, reorganization or other similar proceedings. For this purpose the Trustee is hereby irrevocably appointed the true and lawful attorney-in-fact of the respective owners of the Bonds (and the successive owners of the Bonds by taking and holding the same shall be conclusively deemed to have so appointed the Trustee) with authority to make and file in the respective name of the owners of the Bonds any such proof of debt, amendment of proof of debt, claim, petition or other document in any such proceedings, and to receive payment of any sums becoming distributable on account thereof, and to execute any such other papers and documents and to do and perform any and all acts and things for and on behalf of the owners of the Bonds as may be necessary or advisable in the opinion of the Trustee in order to have the respective claims of the Trustee and the owners of the Bonds allowed in any such proceeding and to receive payment of and on account of such claims; provided, however, that nothing contained in the Trust Agreement shall be deemed to give the Trustee any right to accept or consent to any plan of reorganization or compromise or otherwise take any action of any character in any such proceedings to receive or change in any way any right of any owner of Bonds. The Trustee shall be entitled to seek the direction of MBIA or the Bondholders prior to taking any action not expressly required or authorized under the Trust Agreement and shall be entitled to act in accordance with such directions with the consent of MBIA.

All rights of action under the Trust Agreement may be enforced by the Trustee without the possession of any of the Bonds or the production thereof at the trial or other proceedings.

#### **MBIA May Direct Proceedings (Section 805).**

Notwithstanding anything to the contrary contained in the Trust Agreement, as long as there is no default by MBIA pursuant to the Policy, MBIA shall be authorized and empowered (i) to direct the time, method, and place of conducting any proceeding for any remedy available to the owners of the Bonds or to the Trustee therefor, or of exercising any trust or power conferred upon the Trustee under the Trust Agreement; or (ii) on behalf of the owners of the Bonds then Outstanding, to consent to the waiver of any Event of Default or its consequences, and the Trustee shall waive any Event of Default and its consequences upon the written request of MBIA. No waiver or rescission shall extend to any subsequent or other default, or impair any right consequent thereon. If MBIA shall be in default under the Policy, a majority of the Bondholders shall be entitled to direct proceedings as described above.

#### **Supplemental Trust Agreements Effective Without Consent of Owners of Bonds (Section 901).**

The Trust Agreement and the rights and obligations of the County, the Trustee and the owners of the Bonds may be modified or amended from time to time and at any time by a trust agreement or trust agreements supplemental thereto (defined and referred to as a "Supplemental Trust Agreement"), which the County and the Trustee may enter into without the consent of any Bond owner, but only with the prior written consent of MBIA (i) to appoint an additional Bond Registrar or Paying Agent pursuant to Article VI of the Trust Agreement; or

(ii) if the provisions of such Supplemental Trust Agreement shall not adversely affect the rights of the owners of the Bonds then outstanding, for any one or more of the following purposes:

(1) to issue one or more series of Additional Refunding Bonds for the purpose of refunding any Bonds Outstanding;

(2) to make any changes or corrections in the Trust Agreement as to which the County shall have been advised by counsel that the same are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provision or omission or mistake or manifest error contained in the Trust Agreement, or to insert in the Trust Agreement such provisions clarifying matters or questions arising under the Trust Agreement as are necessary or desirable;

(3) to add additional covenants and agreements of the County for the purpose of further securing the payment of the Bonds;

(4) to surrender any right, power or privilege reserved to or conferred upon the County by the terms of the Trust Agreement;

(5) to confirm as further assurance any lien, pledge or charge, or the subjection to any lien, pledge, or charge, created or to be created by the provisions of the Trust Agreement;

(6) to grant or to confer upon the owners of the Bonds any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon them, or to grant to or to confer upon the Trustee for the benefit of the owners of the Bonds any additional rights, duties, remedies, powers, authority or security;

(7) to make any appointment or to add any provision, in either case, required or permitted by the Trust Agreement to be so made or added pursuant to a Supplemental Trust Agreement; and

(8) to make any other change which the County deems necessary or desirable and which does not adversely affect the rights of the Bondholders.

Any such Supplemental Trust Agreement shall become effective in accordance with its terms upon the date thereof or upon such other date specific in the Trust Agreement.

#### **Supplemental Trust Agreements Effective With Consent of Bondholders (Section 902).**

The Trust Agreement and the rights and obligations of the County and of the owners of the Bond may also be modified or amended from time to time and at any time by a Supplemental Trust Agreement, which the County and the Trustee may enter into with the consent of the Bondholders and MBIA in accordance with and subject to the provisions of Article X of the Trust Agreement.

## **Powers of Amendment (Section 1002).**

Other than with respect to amendments or supplements made by a Supplemental Trust Agreement pursuant to Section 901 of the Trust Agreement, any modification or amendment of the Trust Agreement or of the rights and obligations of the County, the Trustee and of the owner of the Bonds under the Trust Agreement, in any particular, may be made by a Supplemental Trust Agreement with the written consent given as provided in Section 1003 of the Trust Agreement, of MBIA and the owners of not less than a majority in principal amount of the Bonds Outstanding at the time such consent is given; except that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified maturity remain Outstanding, the consent of the owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under Section 1002 of the Trust Agreement. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the owner of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the owners of which is required to effect any such modification or amendment, or permit a preference or priority of any Bond over any other or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. The Trustee may in its discretion determine whether or not in accordance with the foregoing powers of amendment Bonds of any particular maturity would be affected by any modification or amendment of the Trust Agreement and any such determination shall be binding and conclusive on the County and all owners of Bonds. For the purposes of Section 1002 of the Trust Agreement, the owners of the Bonds may include the initial owners thereof, regardless of whether such Bonds are being held for immediate resale.

## **Discharge of Liens and Pledges; Bonds No Longer Outstanding and Deemed to be Paid Hereunder (Section 1101).**

The Trust Agreement and all of the covenants, agreements and obligations of the County thereunder and the liens, pledges, charges, trusts, covenants and agreements in the Trust Agreement made or provided for, shall be fully discharged and satisfied as to any Bond and such Bond shall no longer be deemed to be outstanding thereunder,

- (i) when such Bond shall have been cancelled, or shall have been surrendered for cancellation or is subject to cancellation, or shall have been purchased by the Trustee from moneys held under the Trust Agreement; or
- (ii) as to any Bond not cancelled or surrendered for cancellation or subject to cancellation or so purchased, when payment of the principal of and premium, if any, on such Bond, plus interest on such principal to the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment, or otherwise) either (A) shall have been made or caused to be made in accordance with the terms thereof, or (B) shall have been provided for by irrevocably depositing with the Trustee or a Paying Agent for such Bond, in trust, and irrevocably appropriating and setting aside exclusively for such payment, either (1) moneys sufficient to make such payment or (2) Defeasance Obligations maturing, or redeemable at the option of the owner thereof, as

to principal and interest in such amount and at such times as will insure the availability of sufficient moneys to make such payment, or a combination thereof, whichever the County deems to be in its best interest, and all necessary and proper fees, compensation and expenses of MBIA, the Trustee and the Paying Agent pertaining to the Bond with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of MBIA, the Trustee and said Paying Agent; provided, however, that no Bonds shall be deemed discharged as long as any amounts are due to MBIA pursuant to the Trust Agreement, the Insurance Agreement and the Policy and until such payments to MBIA are made.

At such time as a Bond shall be deemed to be no longer outstanding under the Trust Agreement, as aforesaid, such Bond shall no longer be secured by or entitled to the benefits of the Trust Agreement, except for the purposes of any payment from such moneys or Defeasance Obligations.

Notwithstanding the foregoing, in the case of a Bond which is to be redeemed or otherwise prepaid prior to its stated maturity, no deposit under clause (B) of subparagraph (ii) above shall constitute such payment, discharge and satisfaction as aforesaid until such Bond shall have been irrevocably designated for redemption or prepayment and proper notice of such redemption or prepayment shall have been previously published in accordance with Section 403 of the Trust Agreement or provision satisfactory to the Trustee shall have been irrevocably made for the giving of such notice and the County shall have obtained a verification report from a nationally recognized accountant and an opinion of a nationally recognized bond counsel addressed to the Trustee and MBIA.

Any such moneys so deposited with the Trustee or Paying Agents for the Bonds as provided in Section 1101 of the Trust Agreement may at the direction of the County also be invested and reinvested in Defeasance Obligations, maturing in the amounts and times as hereinbefore set forth. All income from all Defeasance Obligations in the hands of the Trustee or Paying Agents pursuant to Section 1101 of the Trust Agreement which is not required for the payment of the Bonds and interest and premium thereon with respect to which such moneys shall have been so deposited, shall be paid to the County. Likewise, whenever all of the Bonds shall be deemed to be no longer Outstanding under the Trust Agreement, as aforesaid, the amounts, if any, remaining on deposit to the credit of the Debt Service Fund shall be paid to the County after provisions are made for payment of fees and expenses of the Trustee, if any, remaining due pursuant to the Trust Agreement.

Notwithstanding any provision of any other section of the Trust Agreement which may be contrary to the provision of Section 1101 of the Trust Agreement, all moneys and Defeasance Obligations set aside and held in trust pursuant to the provisions of Section 1101 of the Trust Agreement for the payment of Bonds shall be applied to and used solely for the payment of the particular Bond with respect to which such moneys and Defeasance Obligations have been so set aside in trust.

Anything in Article IX of the Trust Agreement to the contrary notwithstanding, if moneys or Defeasance Obligations have been deposited or set aside with the Trustee or a Paying Agent pursuant to Section 1101 of the Trust Agreement for the payment of a specific Bond and such Bond shall be deemed to have been paid and to be no longer Outstanding under the Trust Agreement as provided in Section 1101 of the Trust Agreement, but such Bond shall

not have in fact been actually paid in full, no amendment to the provisions of Article XI of the Trust Agreement shall be made without the consent of the owner of each Bond affected thereby.

The County shall at any time surrender to the Trustee for cancellation by it any Bonds previously executed and delivered, which the County may have acquired in any manner whatever, and such Bonds upon such surrender for cancellation shall be deemed to be paid and no longer Outstanding under the Trust Agreement.

## **APPENDIX D**

### **BOOK-ENTRY SYSTEM**

#### **General Provisions**

DTC will act as securities depository for the Bonds. The Bonds will be delivered as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered Bond will be delivered for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (the "Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such securities are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to an issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, sinking fund and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payment dates in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the date payable. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the County or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the County or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered as described in the Trust Agreement.

The County may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, securities certificates will be printed and delivered as described in the Trust Agreement.

**The County and the Trustee cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal, interest or any premium with respect to the Bonds paid to DTC or its nominee as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The County and the Trustee are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.**

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Bonds and other related transactions by and between DTC, the DTC

Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

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## **APPENDIX E**

### **PROPOSED FORM OF LEGAL OPINION OF BOND COUNSEL**

[Closing Date]

Board of Supervisors  
County of Orange, California

Ladies and Gentlemen:

We have acted as bond counsel to the County of Orange, California (the "County"), a political subdivision of the State of California (the "State"), in connection with the issuance of its \$278,790,000 Refunding Recovery Bonds, 1995 Series A (the "Bonds"). The Bonds are authorized to be issued pursuant to (i) Articles 10 and 11 of Chapter 3 of Division 2 of Title 5 of the Government Code of the State of California (the "Act"), (ii) a resolution adopted by the Board of Supervisors of the County (the "Board") on April 11, 1995, and a resolution adopted by the Board on June 13, 1995 (collectively, the "Resolution"), (iii) the Trust Agreement, dated as of June 1, 1995 (the "Trust Agreement") by and between the County and First Interstate Bank of California, as trustee (the "Trustee"), (iv) an order of the United States Bankruptcy Court for the Central District of California (the "Bankruptcy Court"), entered on May 2, 1995, as amended an by order of the Bankruptcy Court entered on June 5, 1995 (the "Bankruptcy Court Order"), and (v) a judgment issued on June 5, 1995 by the Superior Court of the State for the County (the "Validation Judgment"). All capitalized terms used herein and not otherwise defined shall have the respective meanings ascribed thereto in the Trust Agreement.

The Bonds are dated, will mature on June 1 in the years and in the respective principal amounts, and will bear interest at the respective rates per annum, all as set forth in the Trust Agreement. The Bonds are subject to redemption in the manner and upon the terms and conditions set forth in the Trust Agreement. The Bonds are issuable as fully registered bonds in certificated or book entry form and in denominations of \$5,000 or any integral multiple thereof.

In rendering the opinions set forth below we have examined the following:

(a) The Constitution and statutes of the State, including particularly the Act, Title 11 of the United States Code, the Internal Revenue Code of 1986 (the "Code"), and such court decisions, rulings and regulations, both State and Federal, as we have deemed relevant;

(b) Certified copies of the proceedings of the Board preliminary to and in connection with the issuance of the Bonds, including particularly the adoption of the Resolutions and the authorization of the Contract of Purchase for the Bonds, dated June 13, 1995, by and between the County and the underwriters named therein (the "Purchase Contract");

(c) A certified copy of the Resolutions, an executed counterpart of the Trust Agreement and the Purchase Contract and such legal opinions, certificates and proofs submitted to us relative to the issuance and sale of the Bonds as we have deemed necessary or advisable; and

(d) The Bankruptcy Court Order and the Validation Judgment.

Additionally, we have made such inquiries, have examined originals or copies, certified or otherwise identified to our satisfaction, of other instruments and documents, records and certificates of public officials and have made such examinations of law as we have deemed necessary or advisable for purposes of this opinion.

In reliance upon the foregoing, we are of the opinion that:

1. The County is a political subdivision of the State organized and existing under and by virtue of the Constitution and laws of the State.

2. The Trust Agreement has been duly authorized, executed and delivered by the County and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes the valid and binding obligation of the County. The Trust Agreement creates the pledge and lien that it purports to create on the Pledged Revenues and other amounts described therein, subject only to the terms of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement.

3. The Bonds have been duly authorized and issued by the County and are valid and binding obligations of the County. The Bonds do not constitute a debt of the County, the State or any other political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and do not constitute an obligation for which the County or the State is obligated to levy or pledge any form of taxation or for which the County or the State has levied or pledged any form of taxation.

4. The Bonds are entitled to the benefits of the Trust Agreement.

5. Assuming continuing compliance by the County with certain covenants relating to requirements contained in the Code, interest on the Bonds is not includable in the gross income of the owners thereof for Federal income tax purposes under existing statutes and court decisions. Moreover, interest on the Bonds is not an "item of tax preference" for purposes of the individual and corporate alternative minimum taxes and the corporate environmental tax imposed by the Code. However, interest on the Bonds is includable in the "adjusted current earnings" of a corporate owner of the Bonds and 75% of the interest on the Bonds is thus includable in the tax base for computing a corporation's liability with respect to the 20% alternative minimum tax and the 0.12% environmental tax that are imposed on corporations by the Code. (Such 0.12% corporation environmental tax is generally scheduled to terminate for taxable years beginning after December 31, 1995.) Moreover, interest on the Bonds may be subject to a branch profits tax of up to 30% when owned by certain foreign corporations. Furthermore, interest on the Bonds may be subject to a tax at ordinary income rates when owned by "S Corporations" in certain cases.

6. Interest on the Bonds is exempt from State of California personal income taxes under existing statutes and court decisions.

No opinion is expressed with regard to other tax consequences arising with respect to the Bonds.

In rendering the foregoing opinions, we wish to advise you that the enforceability of the Resolutions, the Trust agreement and the Bonds may be limited by (i) any applicable bankruptcy, insolvency or other law or enactment now or hereafter enacted by the State or Federal government affecting the enforcement or creditors' rights and (ii) the unavailability of equitable remedies or the application thereto of equitable principles. Further, we have assumed the accuracy and truthfulness of all public records and of all certifications, documents and other proceedings examined by us that have been executed or certified by public officials acting within the scope of their official capacities. We have also assumed the genuineness of the signatures appearing upon such public records, and express no opinion as to, the accuracy of any "CUSIP" identification number which may be printed on any Bond.

Very truly yours,

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## **APPENDIX F**

### **PROPOSED FORM OF LEGAL OPINION OF BOND COUNSEL WITH RESPECT TO ORIGINAL ISSUE DISCOUNT**

**[Closing Date]**

**Board of Supervisors  
County of Orange, California**

**Ladies and Gentlemen:**

In connection with the delivery by the County of Orange of its \$278,790,000 Refunding Recovery Bonds, 1995 Series A (the "Bonds"), you have requested our opinion as to the Federal income tax treatment of the original issue discount on the Bonds that will mature on June 1st in the years 2001, 2002, 2003, 2006, 2007 and 2015 (collectively, the "Discount Bonds"). The Discount Bonds bear interest from June 1, 1995 which interest is payable semiannually on December 1st and June 1st of each year commencing December 1, 1995.

We are of the opinion with respect to each Discount Bond that, under present Federal income tax law, the original issue discount, as defined below, is, for Federal income tax purposes, excluded from the gross income of a Bond Owner who has purchased such Discount Bond pursuant to the original offering and such holder would not, under present Federal income tax law, realize taxable gain on such amount upon payment of such Discount Bond at maturity. The original issue discount with respect to a Discount Bond is the difference between the principal amount of such Bond and the initial selling price to the public of such Bond pursuant to the original offering as stated on the cover of the Official Statement.

Further, we are of the opinion that a Bond Owner who acquires a Discount Bond in the original offering will be treated as receiving on each day from the date of issuance of such Bond interest that is excluded from gross income for Federal income tax purposes in an amount computed as described in the next paragraph. The amount representing original issue discount that is treated as being received by the Bond Owner will be added to the Bond Owner's tax basis for purposes of determining gain or loss upon a sale or redemption of a Discount Bond. Unearned discount and redemption premium, if any, received by the Bond Owner upon any redemption of a Discount Bond will not constitute interest that is excluded from gross income for Federal income tax purposes.

To determine the amount of the original issue discount which is considered to be received on each day by a holder who acquires a Discount Bond in the original offering, the period between the issue date of the Discount Bond and the date such Discount Bond matures is first subdivided into a series of shorter periods (the "accrual periods"), the first of which begins on such date of issuance and ends on December 1, 1995 and the remainder of which are six-month periods ending on each successive June 1st and December 1st thereafter during the term of the Discount Bond. A portion of the original issue discount is then allocated to each

accrual period in an amount equal to the product of the issue price of the Discount Bond (increased by the amount of the original issue discount allocated to all prior accrual periods) and the yield to maturity of the Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period). The amount so allocated to an accrual period is reduced by the interest payable with respect to the Discount Bond during and with respect to such period. The original issue discount allocated to a particular accrual period is then allocated ratably to each day in the accrual period.

The foregoing opinion with respect to the Discount Bonds is premised upon the examination of the same matters and is based upon the same assumptions as our opinion of even date herewith with respect to the excludability of the interest on the Bonds from the gross income of the owners thereof for Federal income tax purposes and is subject to the same limitations set forth in such opinion.

Very truly yours,

## **APPENDIX G**

### **SUMMARY OF CONTINUING DISCLOSURE CERTIFICATE**

**Provision of Annual Reports.** Pursuant to the Continuing Disclosure Certificate (the "Disclosure Certificate"), the County shall, or shall cause its dissemination agent to, not later than December 31 of each year, commencing December 31, 1996, provide to each Nationally Recognized Municipal Securities Information Repository (the "Repositories") an Annual Report. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information; provided that the financial statements of the County may be submitted separately from the balance of the Annual Report.

If the County will not provide to the Repositories an Annual Report by the date required, the County shall send a notice to each Repository to that effect.

**Content of Annual Reports.** The County's Annual Report shall contain or incorporate by reference the following:

1. Audited financial statements for the preceding fiscal year.
2. Motor Vehicle License Fees for the preceding fiscal year.
3. Issuance of additional obligations secured by a pledge or intercept of Motor Vehicle License Fees.
4. Issuance of additional obligations secured by "superpriority" or any termination of superpriority.
5. So long as the County is in bankruptcy, a discussion of the status of the bankruptcy and Recovery Plan.
6. Changes in investment policy from that described in the Official Statement under the caption "Investment Policy for the County's Investment Pools."
7. Update of Table 1 contained in the Official Statement under the caption "Budget Information Relating to the County."
8. Update of Tables 16, 17, 18, 19, 20, 21 and 22 of Appendix A to the Official Statement.

The County has not undertaken in the Disclosure Certificate to provide all information investors may want to have in making decisions to hold, sell or buy Bonds.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the County or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be

available from the Municipal Securities Rulemaking Board. The County shall clearly identify each such other document so incorporated by reference.

**Reporting of Significant Events.** Whenever the County obtains knowledge of the occurrence of any of the following events (a "Listed Event"), the County shall as soon as possible determine if such event would constitute material information for Owners of Bonds.

1. Delinquency in payment when due of any principal of or interest on the Bonds.
  2. Occurrence of any Event of Default under and as defined in the Trust Agreement (other than as described in clause (1) above).
  3. Amendment to the Trust Agreement or the Disclosure Certificate modifying the rights of the Holders of the Bonds.
  4. Giving of a notice of optional or unscheduled redemption of any Bonds.
  5. Defeasance of the Bonds or any portion thereof.
  6. Any change in any rating on the Bonds.
  7. (A) Receipt of an opinion of nationally recognized bond counsel to the effect that interest on the Bonds is not tax-exempt; or  
(B) Any event adversely affecting the tax-exempt status of the Bonds, including but not limited to:
    - (i) Any audit, investigation or other challenge of the tax-exempt status of the Bonds by the Internal Revenue Service or in any administrative or judicial proceeding; or
    - (ii) The issuance of any regulation, decision or other official pronouncement by the Internal Revenue Service or other official tax authority or by any court adversely affecting the tax-exempt status of the Bonds or bonds of the same type as the bonds or financing structures of the same type as financed by the Bonds.
- For this purpose, tax-exempt shall mean that interest on the Bonds is excluded from gross income for federal income tax purposes, whether or not includable, directly or indirectly as an item of tax preference or otherwise for purposes of calculating any other tax liability.
8. Any draw on the Reserve Fund reflecting financial difficulties.
  9. Any unscheduled draw on any letter of credit or bond insurance policy securing the Bonds reflecting financial difficulties.

10. Any change in the provider of any letter of credit or bond insurance policy securing the Bonds, or any failure by the credit bank or insurer to perform on the letter of credit or bond insurance policy.

If the County determines that knowledge of the occurrence of a Listed Event would be material, the County shall promptly file a notice of such occurrence with each Repository. Notwithstanding the foregoing, notice of Listed Events described in (4) and (5) above need not be given any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Trust Agreement.

Termination of Reporting Obligation. The County's obligations under the Disclosure Certificate terminate upon the defeasance, prior redemption or payment in full of all of the Bonds.

Amendment; Waiver. Notwithstanding any other provision of the Disclosure Certificate, the County may amend the Disclosure Certificate, and any provision of the Disclosure Certificate may be waived, if such amendment or waiver is supported by an opinion of counsel, to the effect that such amendment or waiver would not, in and of itself, materially impair the rights of Owners of Bonds under the Disclosure Certificate.

Additional Information. Nothing in the Disclosure Certificate shall be deemed to prevent the County from disseminating any other information, using the means of dissemination set forth in the Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by the Disclosure Certificate. If the County chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by the Disclosure Certificate, the County shall have no obligation under the Disclosure Certificate update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Default. In the event of a failure of the County to comply with any provision of the Disclosure Certificate any Bondholder or original underwriter may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the County to comply with its obligations under the Disclosure Certificate. A default under the Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under the Disclosure Certificate in the event of any failure of the County to comply with the Disclosure Certificate shall be an action to compel performance.

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APPENDIX H  
**MBIA**  
**FINANCIAL GUARANTY INSURANCE POLICY**  
**MBIA Insurance Corporation**  
**Armonk, New York 10504**

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]  
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH], [YEAR].

MBIA Insurance Corporation

\_\_\_\_\_  
President

Attest:

\_\_\_\_\_  
Assistant Secretary

**SPECIMEN**

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This information must be reviewed by the syndicate desk or principal underwriter before being released to any issuer.

1-2. NAME OF ISSUER AND DESCRIPTION OF ISSUE : COUNTY OF ORANGE, CALIFORNIA  
REFUNDING RECOVERY BONDS  
1995 SERIES A

3. STATE : CA

4. DATED DATE : 06/01/1995

5. DATE OF FINAL MATURITY OF OFFERING : 06/01/2015

6. DATE OF SALE : 06/13/1995

7. PAR VALUE OF OFFERING : \$ 278,790,000

8. PAR AMOUNT UNDERWRITTEN (if there is no underwriting syndicate): \$ —

9. AMENDED OR STICKERED OS? NO NUMBER OF SERIES IN OS : 1  
(Enter Y or N) (Fill out one form for each series)

10. CHECK ALL THAT APPLY:

- a. ☐ At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value of more at least as frequently as every nine months until maturity, earlier redemption, or purchase by the issuer or its designated agent.
- b. ☐ At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value of more at least as frequently as every two years until maturity, earlier redemption, or purchase by the issuer or its designated agent.
- c. ☐ This offering is exempt from SEC rule 15c2-12 under section (c)(1) of that rule. Section (c)(1) of SEC rule 15c2-12 states that an offering is exempt from the requirements of the rule if the securities offered have authorized denominations of \$100,000 or more and or sold to no more than 35 persons each of whom the participating underwriter believes: (1) has the knowledge and expertise necessary to evaluate the merits and risks of the investment; and (2) is not purchasing for more than one account, with a view toward distributing the securities.

11. MANAGING UNDERWRITER : Goldman, Sachs & Co.

16- CUSIP NUMBERS (and corresponding maturity dates)

06/01/2001	684201EQ5	06/01/2002	684201ER3
06/01/2003	684201ES1	06/01/2004	684201ET9
06/01/2005	684201EU6	06/01/2006	684201EV4
06/01/2007	684201EW2	06/01/2008	684201EX0
06/01/2009	684201EY8	06/01/2010	684201EZ5
06/01/2015	684201FC5		

17. MSRB rule G-34 requires that CUSIP numbers be assigned to each new issue of municipal securities unless the issue is ineligible for CUSIP number assignment under the eligibility criteria of the CUSIP Service Bureau.

☐ Check here if the issue is ineligible for CUSIP number assignment.

State the reason why the issue is ineligible for CUSIP number assignment:

18. Submit two copies of the completed form along with the official statement to: Municipal Securities Rulemaking Board, 1640 King Street, Suite 300, Alexandria, VA 22314. Incomplete submissions will be returned for correction.

